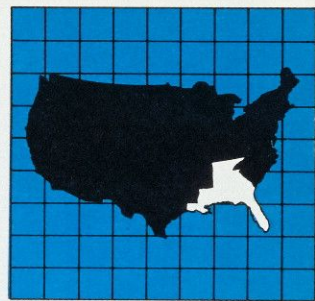


Economic Review



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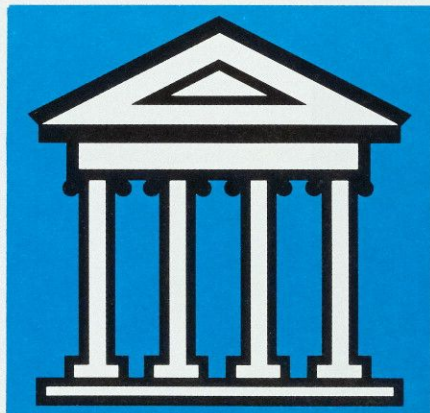
FEDERAL RESERVE BANK
OF PHILADELPHIA

TEAMWORK Key to Productivity

PERFORMANCE Conference Highlights

BANKS Southeastern Banks Fare Well

RETIREEES Economic Impact on Southeast



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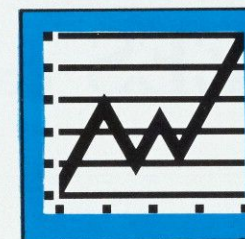
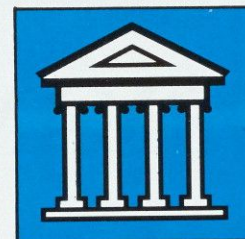
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4 Partnership for
Productivity

To keep our national standard of living rising, we must continue to increase productivity. In a recent speech at Mississippi College, Atlanta Fed President Robert P. Forrestal focused on how government and private business, by working together, can promote productivity growth.

10 High-Performance:
How Do We Achieve It?

Do high-performance companies possess special characteristics that elevate them above the corporate crowd? An April Atlanta Fed conference brought together experts and CEOs to identify the elements that set successful companies apart.

18 Bank Profitability
In 1983

Commercial bank profitability fell nationwide in 1983, reflecting increased loan losses and a narrowing of the gap between interest revenues and interest expenses. How did banks in the Southeast compare with banks across the nation?

30 Economic Influence
of Retirees on Selected
Southeastern Communities

As more and more older Americans retire to the Southeast, bringing their recession-proof retirement income with them, some communities in the region are receiving a major influx of elderly residents. How will the economic structure of those local communities be transformed by the continuing "gray migration"?

44 Statistical Supplement



Partnership for Productivity

Instead of blaming each other for economic ills, government and the private sector can improve the nation's productivity by carving out a working partnership. In a recent speech, Atlanta Fed President Robert P. Forrester suggested that government must maintain low inflation, keep regulation to a minimum, minimize the federal deficit and encourage saving. The private sector must seize technological advantages, encourage entrepreneurial management, and improve employee attitudes.

Let me begin by asking a fundamental question: What do we really want as the result or end-product of our economic activity?

Many say "money." But, money is only a means to an end. You can't eat it or wear it.

What we really want our economy to produce are goods and services. We want our economy to produce enough of these goods and services to go around, so that the basic necessities, at least, are available to everyone at a price that is within reach. And we want these goods and services to be of decent quality; we are justly indignant, for example, when our nearly new car wheezes to an unscheduled halt in the middle of rush-hour traffic because of a defective part.

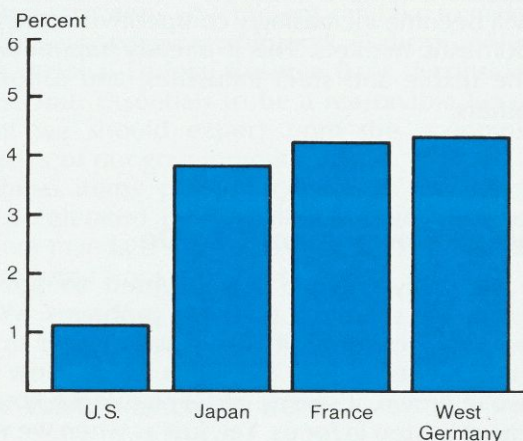
As our population grows, our economy must produce more goods and services just to stay even. But we won't settle for that—and we

should not settle for that. We set a higher goal for ourselves—a rising standard of living.

A rising standard of living requires that our output of goods and services grows a bit faster than our population. It also implies that the general quality of those goods and services must improve. Beyond that, it suggests that our economy must create brand new goods and services—brand new goods like home computers (something no one even dreamed of not too many years ago) and brand new conveniences like bank-at-home services and electronic catalog shopping in your own living room; that's a dream that is becoming a reality right before our eyes.

Now, how do we bring all this about? How do we increase the quantity of goods and services our economy produces? How do we enhance their quality? How do we encourage our most

Chart 1. Productivity Growth 1973-1979



creative people to invent new goods and services and to take the risks necessary to put them on the market?

We must improve our productivity. That's the key word — productivity. That means more output per man-hour on the job; that's labor productivity. And it means more output per dollar invested in new plants and equipment; that's capital productivity. And we must create conditions that nurture the innovation and entrepreneurship that dreams up new products and puts them on the shelves of our stores.

Unfortunately, we in the United States haven't been doing a very good job of improving our productivity in recent years. The Committee for Economic Development came up with some rather depressing statistics on that score. During the period 1973-1979, our average annual productivity growth rate in the United States was a disappointing 1.1 percent. Among the world's leading industrial nations, only one other — Canada — had a lower productivity growth rate, and theirs was only slightly lower.

By contrast, Japan's productivity growth rate during the same period was 3.8 percent, France's was 4.2 percent, and West Germany's was 4.3 percent. True, we in the U.S. managed a spurt in our productivity growth rate in 1982, but that may have been a temporary phenomenon associated with the early stages of the recovery.

That's not a very encouraging picture, and I think we would all agree that we must improve it.

Easy to say. Perhaps a bit more complicated in the doing. But, obviously, we are already doing it to some degree, and I am convinced that we can do it even better in the future.

The solution to the problem, in my judgment, lies in teamwork. Our government has a role to play. The private sector has a role to play. And each of us as individuals must accept some personal responsibility for our own contribution to the total effort. We must all join together in a partnership for productivity. And that is what I'm going to talk about today.

The Nature of the Partnership

As recently as 10 or 15 years ago, we laughed at Japanese products, alluding to their shoddy workmanship. "Made in U.S.A." meant quality; "made in Japan" did not. I doubt if many business people laugh at Japanese products today.

What happened?

Economists say our labor productivity, our output per man-hour, slipped in the 1970s and the 1980s compared to what it had been in the 1960s and early 1970s. Not only are workers in other countries making products cheaper than ours, but they're making products that are, arguably, better than ours.

One of the speakers at a recent conference sponsored by the Federal Reserve Bank of Atlanta cited an interesting study comparing American productivity to Japanese productivity. The study was conducted by David Garvin, a Harvard professor of business administration. Garvin studied every room air conditioning manufacturer in both countries and found that for each 100 units produced in the United States, about 64 defects were found at the factory. How many defects would you expect in Japanese units? Half as many? A tenth as many? He found one defect per 100 units produced in Japan. That works out to a little more than 70 times as many defects in our air conditioners as in the Japanese products. This study took longer than Garvin had planned because, while Japanese manufacturers had the figures posted for all employees to see, the American manufacturers hadn't even bothered to calculate them; they had to go back and reconstruct these crucially important figures.

Naturally, this sort of thing suggests why our consumers and those in other countries are buying fewer American products than they once did. Consequently, many American producers

have had to cut back production and lay off workers. Understandably, workers feel little loyalty to companies that could let them all go tomorrow. Instead of doing the best jobs they can, they just want to put in their hours, get their checks, and go home.

Everyone suffers in this situation.

We, as Americans, have traditionally enjoyed a high standard of living compared to other countries. Being a relatively new nation, we've been able to build new factories, develop new technology, and stay on the forefront of change. We've all come to expect more and more. Our grandmothers never dreamed of conveniences like dishwashers and microwave ovens. Now, every American home needs these appliances. Even young couples just starting out expect them. We, as a society, are accustomed to getting what we want.

However, I submit to you that this isn't going to happen any more unless something changes and changes soon.

Our factories and our tools are aging. Unless we set aside money to re-invest in modernization, they will decay. Each employee in every company needs to help by working harder —going the

“When we increase our total productivity, which means both our labor and capital productivity, we reduce the political pressure for government intervention—intervention that can all too easily be overstimulative, heading almost inevitably to inflation.”

extra mile, as our grandparents used to say —to make our companies more profitable so the money will be available to re-invest. Unless we remain a static society —the same population, the same wants, the same needs —we will slip to a lower standard of living.

When we increase our total productivity, which means both our labor and capital productivity, we reduce the political pressure for government intervention—intervention that can all too easily be overstimulative, leading almost inevitably to inflation.

As a nation, we cannot stand still in our productivity. Even if that were acceptable domestically, our trading partners would continue

increasing their own output. If Japan and other countries continue increasing their productivity and we don't, they'll not only encroach on what traditionally have been our export markets but will become increasingly competitive in the U.S. domestic markets. This is already happening in the textile and steel industries, and a host of others.

What Government Can Do

Naturally, people have turned to government for solutions to these problems. When we were children, it was always easier to ask our parents to fight our fights for us. Now that we're grown, it seems easier to ask the government to step in for us. Yet, just as when we were children, if a parent does fight our fights, we never learn to take care of ourselves.

I'm not saying government can't help. Of course government can help nurture low inflation that fosters private investment and entrepreneurship. Entrepreneurs need faith in the new lower-inflation economy we are fighting to maintain.

Government can also hold regulation to a minimum, letting competition operate naturally. To paraphrase the ancient Hippocratic oath that has been the motto of our medical profession for centuries, “If government can't cure the economic patient, it should leave the patient alone.”

Most of all, government can stop siphoning credit into treasury borrowing. The tide of public opinion is turning toward resolution of the national deficit problem. It is clearly in our national interest that the deficit problem be resolved quickly. As long as government is borrowing the lion's share of credit, too few funds will be available for the private sector investment necessary to accelerate productivity.

Government can help by encouraging saving rather than consumption. The United States savings rate was 8.5 percent of disposable income in 1974. Now, it is only 6.1 percent —a savings rate that resembles that of underdeveloped countries rather than industrialized nations. Both our inflation rate and our tax structure discourage saving and encourage consumption. The interest we earn on our savings is taxed, for instance, while the interest we pay on the money we borrow is deductible. It is

hardly surprising that we've lost the habit of saving up for major purchases.

These four steps—limiting inflation, reducing regulation, reducing deficits, and encouraging saving—are steps government can take to make a public-private partnership work. As the president of a regional Federal Reserve Bank, I consider those four essentials to be a reasonable list of what we should expect from the economic policies of our government.

These items provide conditions necessary for accelerated productivity. But, government cannot mandate such acceleration. The initiative must come from the private sector.

The Private Sector's Role

Again, productivity is the key word here. Productivity is not mysterious, as some might think. We know what makes high-performance companies productive. Volumes have been published on the subject recently, such as **In Search of Excellence** by Robert Waterman and Thomas Peters and **The Change Masters** by Rosabeth Moss Kanter.

These sources, as well as other research, tell us what makes high-performance companies productive—such factors as innovation and entrepreneurship. So you, as business and community leaders, should look to your own management, not to government, to solve your problems. Resorting to government siphons away energy and initiative necessary for private-sector solutions, such as training lower level managers to make sound decisions. How many executives today ask their employees—even their lowest level employees—for comments or suggestions? The people who do the same jobs day in and day out are often the very ones who know the problems inherent in those jobs. They're often the ones who can see solutions to those problems. Ask them. They'll feel grateful for the responsibility.

Business leaders are realizing they need to pay much more attention to the marketplace. Surveys from the 1970s suggested that chief executives were spending more personal time looking at the regulatory environment than at their own firms and at their competitors. This has to change, and it is changing.

Companies that achieve large productivity increases invariably have listened carefully to

what their customers want. In the 1970s, marketing was everything. New and better products didn't matter. New and better marketing ideas—slogans, packages—did. Customers too often were ignored. This has to change.

Business leaders should concentrate on technology transfer. We haven't suffered from any fundamental lack of technological progress. As a country, we've been blessed with an abundance of creative people. Instead, the problem is taking advantage of the technology we already have. Technologies being implemented today typically have been available for 7 to 10 years.

The auto industry, for example, didn't significantly change basic automotive technology from World War II until the 1980s, except for add-ons like air conditioning and automatic transmissions. Tail fins came and went, of course. Colors changed. But the basic technology didn't change.

This was fine until foreign firms introduced startling new cars with radically improved fuel efficiency and the commitment of dedicated employees who had been assured they would not be laid off while the company developed new and better ways to make cars. The Japanese automakers, in particular, have utilized new

"These four steps—limiting inflation, reducing regulation, reducing deficits, and encouraging saving—are steps government can take to make a public-private partnership work"

technology and cultivated employee loyalty and teamwork that have helped make them such efficient producers. On the other hand, American auto manufacturers have called for government protection in the form of import quotas.

Well-managed firms, working to increase productivity at the assembly-line level, invariably describe people as their most important resource. The maxim, "Treat people as assets," has come to sound like a cliché. But, like all clichés, this one does contain some wisdom. So does the one that says, "If you can't beat 'em, join 'em." Will Americans ever again enjoy dominance in global markets, now that the Japanese are outproducing us and undercutting our costs?

A signal difference between Japanese manufacturing plants and our own is that their workers usually know much more about the whole production process, and understand the equipment they are using well enough to fix it. We can't compete with the Japanese, the Germans, and others unless we compete on these terms.

A good example that comes to mind is Nissan USA, a subsidiary of Japan's Nissan Motor Co. Its plant, in Smyrna, Tennessee, employs American managers and technicians, as the assembly-line workers are called. The president of Nissan USA, who spoke at our recent conference on high-performance management, said the Nissan plant employs as technicians people who, in many cases, have never been out of their home state. Some of these people were sent to Japan to study how the parent company's employees do their jobs efficiently. They learned how the high-tech equipment works so they, too, can fix their own machines. This, and management encouragement to learn as many jobs as possible, makes Nissan employees feel part of a team.

This is in contrast to a disturbing survey by Daniel Yankelovich recently that says only 13 percent of American workers feel they would benefit personally if they increased their productivity. This is management's fault for failing to show employees over the years that their productivity really matters—to them, personally, as well as to their fellow workers and their company.

We must all work together—labor and management—to produce once again, on our own shores, the best products at the best price.

On the private side of the partnership, we need to encourage the entrepreneurial spirit. The evidence on economic revitalization clearly shows the key is entrepreneurial individuals who really care.

Webster's defines an entrepreneur as "a person who organizes and manages a business undertaking, assuming the risk for the sake of profit." Entrepreneurs are the ones who have vision, who have a better idea. They're also willing, as the definition says, to gamble on this vision, this better idea. In so doing, they create jobs and lead the way for others. Henry Ford is a great example from the past; a more recent example would be Dr. Edwin Land, who gave us the picture-in-a-minute industry. They're entrepreneurs of the past we've turned into heroes. Let's make the entrepreneurs of today heroes in our society. Today's entrepreneurial heroes are leading us

through the computer era and into the information age.

By no means has the government done all it can to promote productivity. Neither is it clear that the private sector is pulling its weight. Many firms give lip service to entrepreneurship and productivity through people, but are really paternalistic and bureaucratic. Often the turkeys disguise themselves as eagles. Peter Drucker said once that an organization becomes unwieldy when it has nine or more levels of management. Facing a bureaucracy that complex, young people entering at the lowest level can cherish little hope of ever reaching the top. The American army, incidentally, has at least ten levels.

The key is for both sides to renew our effort in a partnership for productivity. With government encouraging the necessary conditions, and with the private sector using that opportunity, we could all be the beneficiaries. We all want not only to maintain our present standard of living, but to secure a better one for our children and our grandchildren.

Summing It Up

To sum up, in order for the public-private partnership to work, government must maintain low inflation, keep regulation to a minimum, minimize the federal deficit, and encourage saving. On the private side of the partnership, companies must take advantage of technological

"Therefore, if we don't make each other rich by doing our best to keep up the quality and quantity of our output, we'll all be making each other poor through inefficiency and shoddy workmanship."

opportunities, encourage entrepreneurial management, treat employees as valued associates, and develop sound marketing strategies.

Let me conclude by contrasting the earliest and simplest economic unit we know of—a primitive family—with the highly complex and sophisticated economic units of today.

In a primitive society, a family might make most or even all of its own tools, forage or hunt for its own food, fashion its own clothing, and

build its own shelter. If the quantity was inadequate or the quality was poor, the family members had only themselves to blame. Today, self-sufficiency of that sort is largely a thing of the past. How many families today would be able to build their own automobiles, TV sets, microwave ovens, and home computers? Few of us would be able even to assemble these things, let alone start from the primary raw materials, such as iron ore, and make all the necessary parts—the electronic ignition system, the computer chips, the circuit-boards, and so on. Nowadays, if you work in an automobile plant, the quality of your refrigerator is someone else's responsibility. You're at that person's mercy. And he's at your mercy when it comes to the quality of his automobile.

If that refrigerator-maker becomes inefficient and uncompetitive—as it easily might because of careless or slow workers, antiquated tools, and obsolescent designs—and then persuades the government to provide a protective tariff, you will pay for that protection. You'll be subsidizing that inefficiency, and your refrigerator won't operate quite as long or as well as it might otherwise.

The primitive family could thrive by working hard and carefully to produce for itself an abundance of goods and services of high quality.

Today, we're no longer self-sufficient; we're extremely interdependent, and that interdependence has been increasingly global in nature. Therefore, if we don't make each other rich by doing our best to keep up the quality and quantity of our output, we'll all be making each other poor through inefficiency and shoddy workmanship.

So let me urge a partnership in which we in government and you in the private sector quit blaming each other and agree to a new working relationship, in which each of us contributes what we can do best.

I'll close by making you a promise. As the president of the Federal Reserve Bank of Atlanta, I'll do my very best to provide central banking services of high quality at the lowest price my associates and I can provide. In particular, I pledge to do everything in my power to keep inflation from spoiling your future.

In return, I trust that you will do your best in whatever calling you may have chosen or may choose.

We're partners. Let's really help each other.

—Robert P. Forrestal



High Performance: How Do We Achieve It?

High-performance companies share some attitudes and strategies that help set them apart from the crowd. Innovation, entrepreneurial management, employee relations and marketing were among the factors highlighted at a recent Atlanta Fed conference.

How can America regain its productivity?

The Federal Reserve Bank of Atlanta, which has analyzed that question in recent research studies, aired it in April with a public forum focusing on well-managed southeastern companies. The conference, the Atlanta Fed's sixth since 1981, concentrated on the management philosophies that distinguish high-performance companies from less-favored firms.

"High-performance companies possess a special something that elevates them above the corporate crowd," Atlanta Fed President Robert P. Forrestal observed in his introduction. "Our intent is to look at some of the Southeast's most successful companies and try to identify the elements that set them apart."

A day and a half later, after 21 speakers had shared their expert opinions with other conference participants, Forrestal offered a capsule description of some of those elements that form a common thread between top companies:

"Results," he summarized, "come from innovation, entrepreneurship, productivity—and a recognition that any management can accomplish those goals best by working in harmony

with the men and women in its offices and its factories."

The conference at the Atlanta Hilton attracted about 200 bankers, business people, academics and government representatives from throughout the Southeast.

After sponsoring conferences in 1981 on the future of the financial services industry and the U.S. payments system, the region's central bank staged a 1982 conference on supply-side economics that attracted Reagan administration officials, two Nobel laureates in economics and several congressmen. The bank followed in 1983 with another conference on the nation's payments system and a conference on growth industries, a precursor to this meeting on successful companies.

The dual thrust of the latest conference was suggested by its title: "How to Compete Beyond the 1980s: Perspectives from High-Performance Companies." The bank invited chief executive officers of leading firms to outline their corporate stories, so visitors could consider adopting or adapting certain ideas or philosophies to their own business operations. As a cross-check,

securities experts and others who watch and measure corporate success also were invited to offer their perspectives.

Conference planners emphasized the importance of finding keys that might help unlock the nation's creativity and productivity, warning that trading partners—notably Japan—have outdistanced the United States in improving productivity. For instance, America's investment rate, crucial to a nation's ability to rejuvenate its plants and equipment, remains lower as a percentage of gross domestic product than that of most of our trading partners. At the same time, the U.S. savings rate ranks near the bottom among the industrialized nations, further bad news for corporate investment that could boost productivity in the future.

Some speakers emphasized the need for economic growth, which can contribute heavily to the revitalization of American industry by generating corporate profits that can translate into capital investment.

"There is no question of our need for economic growth," as Federal Reserve Board Vice Chairman Preston Martin expressed it. "We've got to reinvest, both in the public sector and the private sector."

Martin noted that both traditional industrial nations and less-developed countries around the world are investing in new plants and facilities, while Americans have been consuming the nation's capital through personal buying.

"In our consumer economy that we all enjoy so much, we have consumed the seed corn, haven't we?" Martin asked. "We need to get that back."

Martin said the United States must revive productivity in both the private and public sector.

"Goodness knows, we need to restore our productive capacity in the private sector," he said. "We also need roads, and bridges, and railroads, and canals, and all the rest of the public infrastructure that we've been using up, too."

The productivity question was addressed by the Atlanta Fed's Research Department in a six-month study that preceded the Atlanta conference. In that project, a team of researchers visited companies across the Southeast to identify high-performance companies and the traits they share. The study, which focused on companies as diverse as airlines, supermarket

chains, and steel manufacturers, was detailed in the April issue of the Bank's **Economic Review**.

According to Donald L. Koch, the Atlanta Fed's former research director who described the project during the conference, the series of interviews identified four strong patterns common to the successful firms:

1. They emphasize innovation, particularly in the area of technology.
2. They feature an entrepreneurial managerial style that keeps their organizational structures lean and flexible for prompt action.
3. They view employees as associates, their most valued long-term asset, rather than as management's adversaries.
4. They share an ongoing, sharply defined attention to marketing strategy that focuses on their comparative advantages.

William N. Cox, the Atlanta Fed's associate director of research, noted that many firms with mission statements boasting of their commitment to "productivity through people" fail to live up to that philosophy. He cited a recent nationwide survey that found most

"In our consumer economy that we all enjoy so much, we have consumed the seed corn, haven't we? We need to get that back."

workers do not believe they will benefit personally if they improve their productivity on the job.

"Although most companies have mission statements that say, in effect, 'people are our most important assets,' the turkeys obviously are saying the same thing as the eagles," Cox said.

According to Cox, the companies invited to speak at the conference were chosen to participate not just because of what they say but because they are demonstrating their commitment and accomplishing results. "The success of their organizations, and the testimony of their employees, say that these executives are indeed eagles and not turkeys," he said.

The Atlanta Fed's interest in reviving national productivity is longstanding. It took embryonic

form during the recession years 1981 and 1982, when economists noted that some companies seem to prosper even during the worst of times. Researchers' curiosity led to a major conference in March 1983 that featured such experts as futurist Alvin Toffler; Robert Waterman, Jr., co-author of the best-selling **In Search of Excellence**; and Arthur Levitt, Jr., chairman of the American Stock Exchange.

The latest conference brought together a new lineup of authorities on the subject, many of whom emphasized the importance of investment and corporate profits to America's economy.

Kathryn Eickhoff, executive vice president and treasurer for Townsend-Greenspan, an economic consulting firm, described profits as the "golden fleece" for which enterprises must strive.

"Profits are the reward for risk-taking," she said. "Companies in the oil and gas industry, for example, must earn an above-average return if they are to stay in business, and if they are to attract investors. The biggest profit rewards go to those who can see a way to avoid or conquer the risks others perceive as deterrents."

Profits buffer companies during hard times, and profits are the way the market makes its preferences known, she said, explaining: "If too high a profit is earned by the standard of other entrepreneurs willing and able to compete for a lower return, new businesses will enter the market; if returns are low, some companies will be forced out."

And, she added, profits are the primary source of savings and investment in the economy.

"If we make no attempt at investment, our factories and tools will gradually decay. We must set aside at least enough to offset the wear and tear on existing facilities. Further, unless we have a purely static society—same population, same wants, same needs—even replacement cost depreciation would not be sufficient to prevent us from slipping backward to ever lower standards of living.

"Most people want to move ahead to a higher standard of living," she said. "To do this, we must invest. To invest, we must save."

Eugene Epstein, a senior economist at the New York Stock Exchange, expanded on the importance of investment in plants and equipment. "Look at Japan and Germany," he said. "Everything in those countries was destroyed in World War II, yet they've rebuilt better than before."

Epstein said innovation is sorely needed in the United States today, saying "there's no way to introduce innovations without investment. But innovation is the key. An ounce of innovation is worth a pound of investment."

Often innovations will pay off by requiring less investment in the long-term, Epstein said. "Newer, cheaper computers, for example, required investment initially, but now require less and less."

Epstein said 600,000 Americans started new corporations last year. These are people with innovative ideas, he said, and these are people who need money to make their innovations work.

"I urge you to make the most of innovations," Epstein said. He chided Americans for asking for import quotas and government subsidies that he warned could lessen the desire to innovate.

One firm combining both innovation and investment is Nissan USA, a subsidiary of Japan's Nissan Motor Co. Marvin Runyon, president of Nissan USA, told the conference that his Smyrna, Tennessee plant, which began producing trucks last June, had to build its manufacturing facility and company organization at the same time.

Runyon's 78-acre plant, a \$600 million facility, represents the largest foreign investment by a Japanese firm. It is an amalgam of nationalities. Most employees are American, while equipment

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An ounce of innovation is worth a pound of investment."

or technologies come from America, Germany, Japan, Norway, and Sweden.

"We brought together two nationalities with different cultures who had to work closely together," Runyon said. "We also had several subcultures within the organization—some who had previous experience in the auto industry and some who did not, some who had experienced third-party representation and some who had not. We had no personnel policies or any others to transfer from an American parent company. We had to create our own history as we began to evolve our management style."

Nissan's management decided early to gain input from all levels of the company by establishing mutually defined goals, helping to create a value system that would be a common bond among all the employees. A corporate philosophy was developed, emphasizing the production of high-quality trucks by working as a team.

Five levels of management were established, half the number common in traditional manufacturing firms. This, according to Runyon, emphasizes the "sameness" among employees.

"We all eat together in the same cafeteria and park in the employee parking lots. Many of us regularly wear company apparel, which is voluntary and provided to everyone without charge."

John Savage, manager of personnel services at Nucor Corporation, a steel manufacturer based in Charlotte, North Carolina, echoed Runyon's emphasis on employee motivation, saying, "We believe the best motivation is green."

Nucor Corporation has prospered during hard economic times in a mature industry, Savage said, by rewarding employees for working hard. He said employees are paid generous bonuses based on completing tasks in 90 percent of the time normally required. If they produce in 60 percent less than the standard time, they receive a 60 percent bonus with their regular pay the next week.

"Nissan's management decided early to gain input from all levels of the company by establishing mutually defined goals, helping to create a value system that would be a common bond among all the employees."

In return for employees doing their part for the company, Savage said, Nucor management works to make sure the company is profitable so everyone can depend on having a job in the future. Not one employee has been laid off in 14 years, he said. In addition, everyone is made to feel part of a team, Savage said. All employees have the same benefit plans and vacation time. Executives have no company cars or executive dining rooms.

Nucor, like Nissan USA, maintains only five organizational levels: the chief executive officer, the vice presidents and general managers, the

department managers, the supervisors and professionals, and the hourly employees. "Our lines of communication are open and informal," according to Savage.

Joel Wells, president and chief executive officer of Sun Banks, a bank holding company based in Orlando, Florida, described his company's philosophy of seeking to please customers by pleasing employees. He said a survey of employee feelings and attitudes led to improved hiring and training policies and greater involvement by management and staff in policies that affect all.

Examples include Sun Bank University; a branch managers' academy; the Sun video network (a 15 minute video presentation of key events within Sun Banks shown to all employees); the "Sunsuggestion" program (an employee suggestion program that rewards those who contribute ideas that work); the "Sunshare" program (a 100 percent matching contribution program for employees putting up to 6 percent of their income in Sun Banks common stock); work-sharing (top executives spend one day every other month helping customer-contact employees, such as tellers); and management-by-walking-about (a concept of open management described in **In Search of Excellence**).

Wells said his firm has established measurable goals for improving employee relations. "We want to reduce employee dissatisfaction by 10 percent a year, reduce outside non-entry level hirings by 15 percent per year, and reduce employee turnover by 15 percent a year," he said.

Sun Banks also set out to discover what customers want by taking a survey and, when it was finished, setting goals for improving customer relations as well. These goals included reducing avoidable account closings by 10 percent a year and increasing use of core services by 10 percent a year.

"Our strategy to please employees and customers should result in pleasing our shareholders," Wells said. "We have set four goals for ourselves in this area: achieving a return on earning assets of 1.1 percent, a return on equity of 15 percent, and an internal capital generation rate of 10 percent. In 1983, we exceeded one goal—our targeted 15 percent return on equity."

Another banker who spoke at the conference was Robert Strickland, chairman of the board of Trust Company of Georgia, who spoke on

sustaining a tradition of excellence. Strickland said the people at each firm must remain introspective about their firm's goals.

"How much of this corporate prose is merely rhetoric and how much is reality?" he asked. "How much is gloss and how much is substance?"

According to Strickland, "excellence means continuous attention to detail, a dedication to the work ethic, and a challenge throughout the organization to strive for increased personal productivity."

To continue to be successful, Strickland said, means doing what good golfers do: "Keep your head down, keep your eye on the ball, and use plenty of follow-through."

Thomas Jacobsen, senior executive vice president of finance and administration for Barnett Banks, emphasized the importance of technological innovations in the banking industry.

"The driving forces in Florida banking are technology and deregulation," Jacobsen said. He said his bank tries to stay on top of the Florida banking industry by experimenting with new technology, such as the statewide automated teller machines (ATMs), a credit card network, and in-home banking.

Gerald Eickhoff, president of Bank Earnings International, an Atlanta-based bank consulting firm, echoed a familiar conference theme of encouraging entrepreneurship among employees.

"We strongly encourage the entrepreneurial spirit," said Eickhoff, who founded BEI in 1976 with partner Jim Cotton and has watched it grow to about 125 employees in three cities. "What we are is a small group of entrepreneurs who are now running across a lot of opportunities; we're making those opportunities available to the people in our organization who can handle them."

Mark Hollis of Publix Super Markets attributed Publix's success to location (all its stores are in fast-growing Florida), to employee ownership, to building new stores and updating old ones, and to pleasing customers. He said Publix, based in Lakeland, Florida, tries to please customers by making sure, as its motto promises, that Publix is "where shopping is a pleasure." He said employees must recognize that the customer is the most important person in the store.

Hollis also said Publix's success comes from "training management people at the lowest possible level to make decisions necessary to

meet the latest competitive maneuvers." He said Publix has no organization chart or policy manual for managers to use as a substitute for decision-making. He described this policy of relying heavily on managers' judgment as going hand in hand with the policy of promotion from within.

"Of all the officers of our company," he said, "only four have not worked their way up through retail stores or through warehousing and the distribution system. These officers have special skills, such as accounting or real estate."

Hollis said Publix offers financial benefits such as a profit-sharing retirement trust plan and profit-based cash bonuses to retail employees, but he feels these are not the most effective incentives. "Of even greater importance is the fact that we have been successful in convincing our people that we are interested in them—not just as employees or as numbers on the payroll sheet, but as real human beings. We care for them. We are truly concerned that they find their place of employment to be where 'working is a pleasure.'"

William A. Fickling Jr., founder and chief executive of Charter Medical Corporation, a Macon, Georgia hospital chain, also emphasized the importance of a company's staff to its success or failure.

"I strongly believe," he said, "that the most important assets of any enterprise are its human resources."

"Of even greater importance is the fact that we have been successful in convincing our people that we are interested in them—not just as employees or as numbers on the payroll sheet, but as real human beings."

Fickling also focused on the importance of finding a business niche and devoting energies to developing that niche. In Charter's case, the firm targeted psychiatric hospitals. In just six years, it has grown from five psychiatric hospitals to 27 hospitals in 12 states and England today—with 17 more facilities under construction.

"We found a niche in the health-care business," as Fickling explained, "where we had a chance to become the world leader."

C. Martin Wood III, senior vice president and chief financial officer of Flowers Industries, based in Thomasville, Georgia, said his baking company, too, trains lower level management to make quick, sound decisions. "We believe entrepreneurship is fostered by maintaining operational autonomy with decision-making placed at the action level, so the men in the trenches, those actually doing the fighting, are the ones making the decisions on the ground," Wood said.

Entrepreneurship is encouraged at Flowers Industries because, with 31 production facilities shipping out bakery products with a life expectancy of 36 hours, decisions made at corporate headquarters would come too late.

"Each market in the bakery business is different, and has its own demographic, its own geographic, and its own competitive make-up," Wood said. "So, the person running the local operation must be able to take full responsibility for what we call the five 'P's': his people, his plant and equipment, his product mix, his pricing, and his plant's profitability."

Wood stated emphatically that Flowers Industries is in business to make money. Employees are imbued with the belief that they can best insure their job security and potential for advancement by helping make Flowers Industries more profitable. Being profitable is sometimes difficult, Wood said, for a company that continually buys financially distressed bakeries and attempts to turn them around by restoring

"These innovative corporate 'change masters' look at problems from all perspectives by getting outside their offices and outside their specialties. They provide clear vision when the going gets tough halfway through the implementation of a new idea or product."

profitability. The company needs everyone's help to succeed, he emphasized.

Flowers Industries employees are rewarded with a salary, a bonus, and an incentive bonus for helping make their company more profitable, Wood said. "It's quite possible a division president or a vice president could earn more in the incentive system than someone with considerably more seniority," he said.

Wood said timely reports are also necessary in a decentralized firm.

"By Monday afternoon, all receivables for the previous week have already been billed," he said. "By Tuesday morning, the plant president has a complete profit and loss statement on every one of his profit centers and each one of his production lines. By Tuesday afternoon, we have a consolidated profit and loss statement at corporate headquarters. This is the key to the decentralized operation."

Rosabeth Moss Kanter, author of **The Change Masters**, also described new management techniques. She stressed the importance of finding new ways to be a more effective manager by giving an example she calls "The Roast Pig Problem," the story of a primitive man who discovers roast pig when an unlucky swine is trapped in the man's burning house. Because the roast pig tastes so good, soon all the townspeople are burning their houses with a pig inside—so they, too, can enjoy roast pig.

Ms. Kanter said this is what American managers have been doing for years—burning their houses to produce roast pig when there are many easier ways to accomplish their goals.

Ms. Kanter said the successful companies she studied for her book are managed by people who use "kaleidoscope" thinking instead of "microscope" or "telescope thinking." These innovative corporate "change masters," as she calls them, look at problems from all perspectives by getting outside their offices and outside their specialties. They provide clear vision when the going gets tough halfway through the implementation of a new idea or product.

Change masters, she said, are experts at "tin cupping," or building a coalition of support for new ideas from the sales force, workers, and everyone else they can find; they know the only way anything can work is through a team effort. And, she added, change masters remember to "make everyone a hero" when credit is finally due.

The companies managed by such executives, Ms. Kanter said, "encourage enterprise by giving people jobs with broader scope and by combining jobs rather than dividing them up. This gives people a bigger sense of responsibility."

Ms. Kanter said high-performance companies, such as Hewlett-Packard and IBM, have a structure different from the traditional "roast pig" structure, too. Local autonomy and interdependence are encouraged, with "smaller

being more beautiful." Because the groups are small, a culture of pride can be established with abundant praise for all. Information is shared and employees feel secure in their jobs. This, she said, is often lost in large corporate bureaucracies.

She contrasted these high-performance companies with what she called the old-fashioned firms that create segmentalism and rules that stifle innovation. Managers in this category, she said, are suspicious of new ideas, force employees to go through channels, decide policies in secret, and express criticism but withhold praise. They are people, she said, "who count everything possible and never forget they are the ones who know everything about the business."

"To the roast pig managers, change is a threat. To the change masters, change is an opportunity," Ms. Kanter said.

The innovative approach to management was echoed again and again at the high-performance conference by representatives from other fast-growing companies.

Bernard Marcus, chairman of the Home Depot, a building supplies retail store based in Atlanta, said his firm's swift growth to \$500 million in revenues this year was attributable in part to the high priority it places on training managers and other personnel.

"When we set this company up," Marcus said, "we determined that we were going to have people in our stores who would be well-trained, highly motivated, aggressive, and actually caring for the customer."

To achieve that goal, which he acknowledged every retailer strives for, it was necessary to emphasize training from the top to the bottom of the staff ranks.

"Everybody in this company, starting with the chairman of the board, in addition to being an entrepreneur and a businessman, is also a trainer and a teacher," he declared.

Ken Millen, personnel manager for Management Science America (MSA), a computer software distributor based in Atlanta, said his firm is fighting very hard to avoid a restrictive organizational structure that could choke off innovation.

He acknowledged that is going to become more difficult as the firm aims at a sales goal of \$1 billion a year, but added: "We intend to really continue working to have, not a structure,

but an opportunity for people to achieve their goals."

Delores Steinhauer, an Atlanta Fed economist who was instrumental in organizing the conference, said the companies' emphasis on "productivity through people" testifies to the fact that "they live and breathe those ideas."

"They believe that they can leverage their hard assets through their soft assets—their employees," she said. "They are convinced that they can really achieve tremendous productivity gains by treating people right—by giving them the right incentives, and the right motivation, to perform."

Harvard Business Review Associate Editor Alan M. Kantrow said the business world has changed in the last 10 years, noting, "We now have global competition, which means we have to compete by making quality products."

"Dave Garvin, assistant professor of business administration at Harvard, recently conducted a study comparing American workmanship to Japanese," Kantrow said. Because there were so few manufacturers making air conditioners, he was able to study all of them.

"He found 63.5 defects for every 100 air-conditioning units produced in the United States. In Japan, the rate was a mere .9 defects per 100 units. And this professor spent longer

"The companies that are successful now and will continue to be successful beyond the 1980s are the ones that recognize the need for quality products and rapid product development. Management of people is important, because employees are a reservoir, not a cost to be cut."

to do the study than he had planned because, while the Japanese posted their figures in each factory, the Americans didn't even know how to get the necessary figures."

Kantrow said the companies that are successful now and will continue to be successful beyond the 1980s are the ones that recognize the need for quality products and rapid product development. Management of people is important, he said, because employees are a reservoir, not a cost to be cut.

At the conference's conclusion, Atlanta Fed President Forrestal summed up by urging participants to consider what each speaker had shared and to incorporate applicable strategies into their own organizations.

"We feel it is crucial that we find the keys that can unlock our nation's creativity and productivity," Forrestal said.

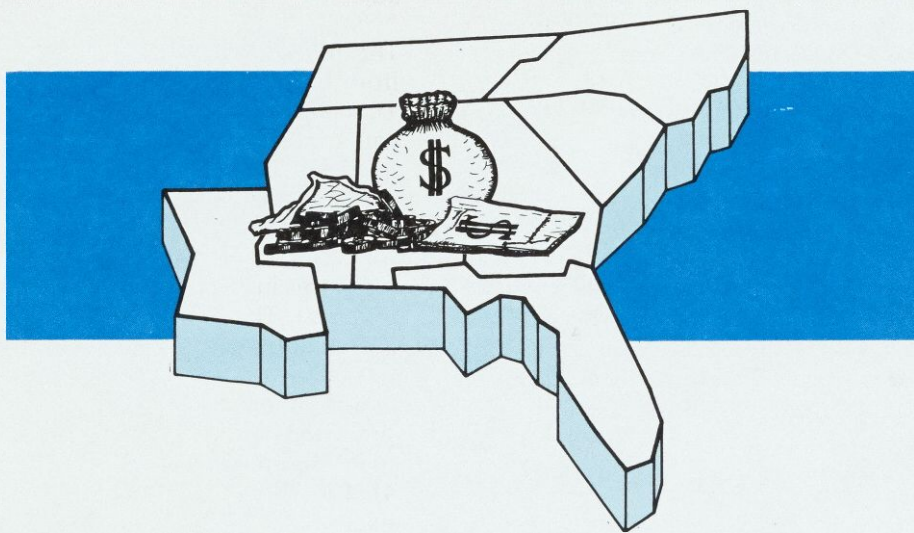
"What has happened to the economic magic we used to describe as 'America's industrial miracle?' Many of us wonder. Our productivity gains have failed to keep pace with those of some of our trading partners, notably Japan. But do we have to step aside for Japan or anyone else? I think not."

He said the conference had underscored that America's productivity problems must be solved by its managers and workers, not by government.

"Our national revival must come, not from sweeping federal initiatives or edicts, but from the imagination and efforts of individual corporations and institutions," he emphasized. "We must remember always that real results come from innovation, entrepreneurship, and productivity."

**—Donald Bedwell
and Melinda Dingler**

Commercial Bank Profitability in 1983



Although commercial bank profitability fell across the nation and in the Southeast, southeastern banks continued to outperform the rest of the nation in 1983. That trend was unevenly distributed, however, with Georgia banks enjoying the highest profit margins and banks in Mississippi and Tennessee suffering relatively low profit levels.

Overall commercial bank profitability declined again in 1983, continuing a trend evident since 1979.¹ The drop in profitability is apparent in all three profitability measures used in this study: return on assets, return on equity and adjusted net interest margin.² Return on assets fell from 0.81 percent in 1979 to 0.67 percent in 1983, return on equity fell from 13.91 percent in 1979 to 11.23 in 1983 and adjusted net interest margins fell from 3.91 percent in 1979 to 3.57 in 1983.

The profitability decline from 1982 to 1983 appears to reflect both a rise in loan loss provisions and a sharper drop in interest revenue than interest expenses. The increase in bank loan losses is typical at this stage of an economic recovery; loan loss provisions usually peak in the first year of a recovery. The falling bank interest revenues and expenses reflected a general decline in market rates of interest. Interest expenses may have fallen less than revenues due to the continuing deregulation of the rates banks pay on deposits.

For the second year in a row, the decline in profitability was greatest among banks with total assets below \$25 million. These banks' return on assets fell from 1.20 in 1981 to 1.02 percent in 1982 and fell again to 0.88 percent in 1983. Thus, their return on assets has fallen by 25 percent from 1981 to 1983.³ Other banks fared somewhat better in 1983, with banks in the \$100 to \$500 million category posting slight improvements in their returns on assets and equity.

Banks in the six southeastern states also experienced somewhat lower profitability on average in 1983 than in 1982.⁴ They continued, however, to do better than banks in the rest of the nation. Southeastern banks achieved a return on assets of 0.94 percent and a return on equity of 13.09 percent in 1983. The average bank in five of the six states saw little change from 1982 to 1983 in its return on assets, but banks in Louisiana had a much lower return on assets than they did in 1982. Louisiana banks appear to have escaped harm from the state's energy industry slump in 1982, but the problems seem to have caught up with them in 1983.

Profitability Measures

The three profitability measures used in this study generally tell the same story about declining bank profits, but there are significant differences in what they measure.⁵ The adjusted net interest margin ratio is calculated by subtracting a bank's interest expense from its interest revenue net of loan losses and dividing that result by its interest earning assets. The interest revenue from tax exempt securities is grossed up by the bank's marginal tax rate to keep from penalizing banks that hold substantial portfolios of state and local securities to reduce their tax burden. Loan losses are subtracted from interest expense so that banks that make low-risk loans at low interest rates are placed on a more equal footing with those that make high-risk loans involving high interest income. That ratio measures the spread between the bank's interest income and its interest expense. It would be roughly analogous to a business' profit margin. The return on assets ratio, obtained by dividing a bank's net income by its assets, provides a handy gauge of how well a bank's management is using its assets. The ratio return on equity is calculated by dividing a bank's net income by its shareholders' equity. That is the most important figure to a bank's shareholders because it tells them what the bank is earning on their investment.

Differences in these ratios can be seen by examining the change in the profitability measure between 1982 and 1983 for southeastern banks with assets in excess of \$1 billion. The adjusted net interest margin for these banks fell from 4.7 percent in 1982 to 4.4 percent in 1983, indicating a drop in the margin banks were earning on their funds (Table 7). These banks' return on assets edged up, however, from 0.91 percent to 0.92 percent (Table 11). The discrepancy between the fall in adjusted net interest margins and the rise in return on assets is due to changes in the bank's non-interest revenues and expenses. The rise in return on assets was relatively modest compared to the large southeastern banks' increase in return on equity, with that figure climbing from 14.96 percent in 1982 to 15.29 percent in 1983 (Table 12). The relatively greater increase in bank return on equity reflects a fall in the capital-to-asset ratio at these banks. Return on equity will increase if a bank has constant earnings (as measured by return on assets) that are spread over a smaller capital base (as measured by the capital-to-asset ratio).

Banks' Adjusted Net Interest Margins

The 1983 results show significant declines in adjusted net interest margins that were explained only partially by increased loan loss provisions. The adjusted net interest margins of all banks fell from 3.71 percent in 1982 to 3.57 in 1983 (Table 1). Furthermore, each margin for the six size categories of banks also fell, all size categories experiencing larger loan losses and all except the very largest experiencing reduced interest spreads.⁶ The drop in market interest rates in 1983 was reflected by a drop in interest revenues and expenses in 1983 for every size category (Tables 2 and 3). The biggest drop in interest revenues and expenses affected the banks most sensitive to changes in market interest rates, those with assets in excess of \$1 billion. Bank loan loss provisions increased from 0.51 percent in 1982 to 0.59 percent of earning assets in 1983 (Table 4). Provisions were up for every size category except the \$100 million to \$500 million banks.

Bank margins, particularly those of smaller banks, appear to have been affected in 1983 by the continuing deregulation of interest rates paid on deposits. The rates paid on bank liabilities fell in 1983, but the interest they received fell even faster. This contrasts with our findings for 1982 in which margins did not appear to be affected by deregulation. Deregulation's effect on smaller banks' interest expense was noticeable in 1982, but these banks were able to compensate for deposit-rate deregulation by adjusting the rates they charged on loans. Smaller banks appeared to be unable to adjust loan rates sufficiently in 1983 to offset deregulation's effect on the costs of their deposits. Even with this decline, the spread between bank interest earnings and bank interest expenses has held up fairly well over the 1979 through 1983 period. This spread is larger in 1983 than it was in 1979 for every size category except the very largest banks. The fall in adjusted net interest margins during this period was due to the dramatic increases in loan loss provisions.

Banks' Returns on Assets and Equity

The reduced interest margins earned by banks with assets below \$100 million are reflected clearly in their overall profitability, but larger banks were able to offset most of the change in margins. All three categories of banks with assets below \$100 million saw their return on assets fall below the 1 percent mark (Table 5). In contrast

Table 1. Adjusted Net Interest Margin
As a Percentage of Interest-Earning Assets
All Insured Commercial Banks
By Size Category

Year	Size Category						
	All Banks	0-\$25 \$ million	\$25-\$50 \$ million	\$50-\$100 \$ million	\$100-\$500 \$ million	\$500- \$1000 \$ million	\$1000 + \$ million
1979	3.91	4.68	4.46	4.38	4.25	4.25	3.53
1980	3.89	4.91	4.63	4.50	4.30	4.32	3.43
1981	3.82	5.06	4.65	4.48	4.33	4.35	3.31
1982	3.71	4.81	4.56	4.46	4.26	4.30	3.23
1983	3.57	4.58	4.31	4.25	4.14	4.15	3.13

Table 2. Tax Equivalent Interest Revenue
As a Percentage of Interest-Earning Assets
All Insured Commercial Banks
By Size Category

Year	Size Category						
	All Banks	0-\$25 \$ million	\$25-\$50 \$ million	\$50-\$100 \$ million	\$100-\$500 \$ million	\$500- \$1000 \$ million	\$1000 + \$ million
1979	11.25	9.43	9.52	9.58	9.76	10.19	12.53
1980	12.95	11.02	10.95	10.92	11.06	11.28	14.45
1981	15.38	13.14	12.97	12.92	13.18	13.44	17.04
1982	14.42	13.58	13.28	13.15	13.14	13.17	15.25
1983	12.16	12.35	12.02	11.85	11.68	11.63	12.38

Table 3. Loan Loss Expense
As a Percentage of Interest-Earning Assets
All Insured Commercial Banks
By Size Category

Year	Size Category						
	All Banks	0-\$25 \$ million	\$25-\$50 \$ million	\$50-\$100 \$ million	\$100-\$500 \$ million	\$500 \$1000 \$ million	\$1000 + \$ million
1979	0.30	0.29	0.27	0.27	0.26	0.30	0.33
1980	0.33	0.33	0.29	0.29	0.29	0.35	0.35
1981	0.34	0.37	0.31	0.31	0.31	0.31	0.35
1982	0.51	0.53	0.48	0.44	0.49	0.48	0.52
1983	0.59	0.64	0.57	0.55	0.49	0.52	0.63

Table 4. Interest Expense
As a Percentage of Interest-Earning Assets
All Insured Commercial Banks
By Size Category

Year	Size Category						
	All Banks	0-\$25 \$ million	\$25-\$50 \$ million	\$50-\$100 \$ million	\$100-\$500 \$ million	\$500-\$1000 \$ million	\$1000 + \$ million
1979	7.03	4.46	4.79	4.93	5.25	5.63	8.67
1980	8.74	5.78	6.03	6.14	6.47	6.61	10.68
1981	11.22	7.69	8.02	8.14	8.54	8.80	13.37
1982	10.20	8.24	8.25	8.24	8.39	8.39	11.49
1983	7.99	7.12	7.15	7.04	7.04	6.96	8.62

Table 5. Percentage Return on Assets
As a Percentage of Interest-Earning Assets
All Insured Commercial Banks
By Size Category

Year	Size Category						
	All Banks	0-\$25 \$ million	\$25-\$50 \$ million	\$50-\$100 \$ million	\$100-\$500 \$ million	\$500-\$1000 \$ million	\$1000 + \$ million
1979	0.81	1.20	1.17	1.10	1.00	0.86	0.64
1980	0.79	1.22	1.21	1.14	1.00	0.88	0.61
1981	0.76	1.20	1.16	1.08	0.94	0.86	0.60
1982	0.71	1.02	1.10	1.06	0.86	0.79	0.57
1983	0.67	0.88	0.98	0.98	0.88	0.76	0.54

banks with assets between \$100 and \$500 million were able to post slightly higher returns on assets despite declining margins. While banks with assets below \$100 million did relatively less well in 1983, their return on assets continues to equal or exceed those of the larger banks. Indeed, banks with assets in excess of \$1 billion continue to have return on assets that are approximately half those of banks with assets between \$25 million and \$100 million.

The changes in banks' return on equity generally parallel the changes in their return on assets (Table 6). One exception is that banks with assets above \$1 billion had a much sharper drop in their return on equity than we would expect based on the drop in their return on assets. This drop probably reflects increases in bank capital

during the last year. Near the end of 1981 the three federal bank regulatory agencies adopted numerical guidelines for bank capital to asset ratios. In many cases these guidelines required banks, especially those with assets in excess of \$1 billion, to sell additional capital to raise their ratios. An effect of spreading relatively constant profitability (as measured by return on assets) over more capital is to reduce a bank's return on equity.

Thus, bank profitability declined in 1983 for five of the six size categories of banks, with loan loss provisions and the effect of deregulation being two important factors in the decline. The effect on bank stockholders is ambiguous because stock prices are also influenced by the rate of return earned on competitive investments

Table 6. Return on Equity
All Insured Commercial Banks
By Size Category

Year	Size Category						
	All Banks	0-\$25 \$ million	\$25-\$50 \$ million	\$50-\$100 \$ million	\$100-\$500 \$ million	\$500- \$1000 \$ million	\$1000 + \$ million
1979	13.91	13.56	14.47	14.32	14.09	13.51	13.76
1980	13.66	13.31	14.59	14.41	13.84	13.12	13.38
1981	13.07	12.82	13.71	13.42	12.78	12.73	13.06
1982	12.08	10.76	12.79	13.15	11.73	11.74	12.06
1983	11.23	9.05	11.33	12.03	12.04	11.27	10.99

Table 7. Adjusted Net Interest Margin
As a Percentage of Interest-Earning Assets
All Insured Commercial Banks
In Six Southeast States
By Size Category

Year	Size Category						
	All Banks	0-\$25 \$ million	\$25-\$50 \$ million	\$50-\$100 \$ million	\$100-\$500 \$ million	\$500- \$1000 \$ million	\$1000 + \$ million
1979	4.53	4.81	4.64	4.57	4.58	4.34	4.23
1980	4.72	5.05	4.82	4.91	4.76	4.37	4.49
1981	4.72	5.09	4.86	4.80	4.59	4.74	4.65
1982	4.66	4.63	4.60	4.78	4.58	4.70	4.70
1983	4.42	4.47	4.43	4.41	4.41	4.54	4.40

and by banks' risk. Market interest rates dropped in 1983, which should have reduced the return investors might expect from banks. On the other hand, reported bank loan loss provisions were up, and some economists contend that reported loan losses understate actual losses (particularly for banks with loans to less developed countries). Increased loan loss provisions could indicate that banks are riskier, which would lower the value of their stock.⁸

Profitability of Banks in the Southeast

Southeastern banks remained more profitable than their peers across the nation, except for banks with assets below \$25 million (Tables 7-12). Some of the factors that influenced bank

profitability across the nation also affected southeastern banks. Like their peers southeastern banks reported lower adjusted net interest margins in all size categories and the decline in margins was greater than the increases in loan loss provisions. Southeastern banks, like banks across the nation, maintain generally higher loan loss provisions, but southeastern banks with assets in excess of \$500 million reported lower loss provisions relative to their interest earning assets in 1983.

Falling margins are reflected in reduced returns on assets and equity at southeastern banks with assets below \$100 million (Tables 11-12). Southeastern banks with assets in excess of \$100 million were able to maintain their 1982 returns on assets in 1983. These larger banks also were

Table 8. Tax Equivalent Interest Revenue
As a Percentage of Interest Earning Assets
All Insured Commercial Banks
In Six Southeast States
By Size Category

Year	Size Category						
	All Banks	0-\$25 \$ million	\$25-\$50 \$ million	\$50-\$100 \$ million	\$100-\$500 \$ million	\$500- \$1000 \$ million	\$1000 + \$ million
1979	10.05	9.70	9.68	9.71	9.85	10.48	10.91
1980	11.52	11.31	11.18	11.14	11.33	11.50	12.46
1981	13.66	13.23	13.25	13.14	13.27	13.75	14.77
1982	13.44	13.52	13.35	13.35	13.10	13.96	13.91
1983	11.82	12.22	11.93	11.92	11.69	11.60	11.85

Table 9. Loan Loss Expense
As a Percentage of Interest Earning Assets
All Insured Commercial Banks
In Six Southeast States
By Size Category

Year	Size Category						
	All Banks	0-\$25 \$ million	\$25-\$50 \$ million	\$50-\$100 \$ million	\$100-\$500 \$ million	\$500- \$1000 \$ million	\$1000 + \$ million
1979	0.38	0.43	0.36	0.34	0.32	0.43	0.50
1980	0.40	0.44	0.39	0.32	0.35	0.44	0.52
1981	0.38	0.48	0.41	0.35	0.34	0.30	0.45
1982	0.50	0.69	0.55	0.47	0.49	0.52	0.45
1983	0.51	0.82	0.57	0.64	0.50	0.51	0.41

able to increase their return on equity. The increased return on equity for banks with assets between \$100 and \$500 million appears to be roughly in line with the slight increase in return on assets, but the increase in return on equity for banks with assets above \$500 million looks larger relative to the change in their return on assets. Banks with assets above \$500 million appear to have reduced their capital-to-assets ratio in 1983.

Southeastern banks, except those with assets below \$25 million had posted better adjusted net interest margins than their peers across the nation, in spite of higher loan loss provisions in the Southeast (except for banks with assets above \$1 billion). These better margins are reflected in better returns on assets and equity

for southeastern banks, particularly banks with assets in excess of \$100 million.⁹

Profitability of Southeastern Banks by State

The profitability of banks in the six states varies widely. Georgia banks continue to do well, leading the Southeast in 1983 in all three measures of bank profitability—adjusted net interest margin in Table 13, return on assets in Table 17 and return on equity in Table 18. Mississippi and Tennessee banks, on the other hand, continue to have problems, although they were able to prevent a further drop in their profitability as measured by return on assets.

Table 10. Interest Expense
As a Percentage of Interest-Earning Assets
All Insured Commercial Banks
In Six Southeast States
By Size Category

Year	Size Category						
	All Banks	0-\$25 \$ million	\$25-\$50 \$ million	\$50-\$100 \$ million	\$100-\$500 \$ million	\$500- \$1000 \$ million	\$1000 + \$ million
1979	5.14	4.47	4.69	4.80	4.95	5.71	6.19
1980	6.39	5.81	5.97	5.91	6.21	6.70	7.45
1981	8.55	7.67	7.98	7.99	8.34	8.71	9.68
1982	8.29	8.19	8.20	8.10	8.03	8.24	8.76
1983	6.88	6.94	6.93	6.88	6.78	6.54	7.04

Table 11. Return on Assets
All Insured Commercial Banks
In Six Southeast States
By Size Category

Year	Size Category						
	All Banks	0-\$25 \$ million	\$25-\$50 \$ million	\$50-\$100 \$ million	\$100-\$500 \$ million	\$500- \$1000 \$ million	\$1000 + \$ million
1979	1.04	1.12	1.16	1.13	1.06	0.88	0.91
1980	1.09	1.19	1.23	1.26	1.11	0.93	0.89
1981	1.01	1.16	1.18	1.16	1.00	0.96	0.85
1982	0.97	0.90	1.08	1.15	0.95	0.90	0.91
1983	0.94	0.70	1.01	1.01	0.96	0.89	0.92

Table 12. Return on Equity
All Insured Commercial Banks
In Six Southeast States
By Size Category

Year	Size Category						
	All Banks	0-\$25 \$ million	\$25-\$50 \$ million	\$50-\$100 \$ million	\$100-\$500 \$ million	\$500- \$1000 \$ million	\$1000 + \$ million
1979	14.06	12.39	14.20	14.52	14.47	13.23	14.55
1980	14.51	12.71	14.43	15.66	15.14	13.60	14.20
1981	13.64	12.28	13.68	14.28	13.47	13.74	13.87
1982	13.27	9.57	12.34	14.08	12.98	12.95	14.96
1983	13.09	7.11	11.38	12.46	13.08	13.10	15.29

Table 13. Adjusted Net Interest Margin
As a Percentage of Interest-Earning Assets
All Insured Commercial Banks
In Six Southeast States
By State

Year	States						
	All Banks	Ala.	Fla.	Ga.	La.	Miss.	Tenn.
1979	4.53	4.23	4.79	5.04	4.54	4.04	4.00
1980	4.72	4.20	5.11	5.43	4.78	4.02	4.01
1981	4.73	4.24	5.00	5.49	4.98	3.87	3.95
1982	4.66	4.17	5.12	5.02	4.96	3.67	3.90
1983	4.42	4.17	4.77	4.84	4.37	3.71	3.84

Table 14. Tax Equivalent Interest Revenue
As a Percentage of Interest-Earning Assets
All Insured Commercial Banks
In Six Southeast States
By State

Year	States						
	All Banks	Ala.	Fla.	Ga.	La.	Miss.	Tenn.
1979	10.05	10.04	9.76	10.65	10.23	9.64	10.02
1980	11.52	11.37	11.30	11.94	11.78	11.01	11.61
1981	13.66	13.56	13.43	13.87	14.09	13.11	13.93
1982	13.44	13.25	13.40	13.23	13.71	13.05	13.87
1983	11.82	11.47	11.91	12.13	11.72	11.51	11.83

Alabama, Florida and Louisiana banks rank in the middle of the regional pack in terms of profitability. Louisiana banks, however, did see a significant drop in profits last year.

Last year we noted that Alabama banks produce somewhat better returns on assets and equity than one would expect given their adjusted net interest margins, while Florida and Tennessee banks produce somewhat lower returns than one would expect. This finding also holds for 1983. The adjusted net interest margins at Alabama banks are below the average margins of their peers in the region, but Alabama banks turned in the second best return on assets. Florida banks had the second best adjusted net interest margin, but their return on assets fell below the average of all Southeastern banks. Tennessee banks turned in better margins than

did Mississippi banks, but Tennessee banks had much lower returns on assets.

An analysis of the adjusted net interest margins explains why Georgia banks did well while Mississippi and Tennessee banks suffered (Tables 13-16). Georgia banks' margins were high because they had the highest interest revenue and the second lowest (second to Alabama) loan loss provisions. Mississippi and Tennessee banks' interest expenses and loan losses both exceed the regional average. In addition, Mississippi had the second lowest tax equivalent interest revenue. A portion of the drop in Louisiana banks' adjusted net interest margins can be explained by the increase in loan loss provisions, but most of the drop was due to a narrowing of the difference between interest revenue and interest expenses.

Table 15. Loan Losses
As a Percentage of Interest-Earning Assets
All Insured Commercial Banks
In Six Southeast States
By State

Year	All Banks	States					
		Ala.	Fla.	Ga.	La.	Miss.	Tenn.
1979	0.38	0.51	0.30	0.54	0.34	0.31	0.39
1980	0.40	0.61	0.30	0.45	0.39	0.36	0.44
1981	0.38	0.46	0.30	0.41	0.39	0.44	0.44
1982	0.50	0.54	0.35	0.41	0.54	0.71	0.73
1983	0.51	0.44	0.38	0.41	0.68	0.65	0.70

Table 16. Interest Expense
As a Percentage of Interest-Earning Assets
All Insured Commercial Banks
In Six Southeast States
By State

Year	All Banks	States					
		Ala.	Fla.	Ga.	La.	Miss.	Tenn.
1979	5.14	5.31	4.68	5.07	5.36	5.28	5.64
1980	6.39	6.56	5.89	6.06	6.62	6.63	7.17
1981	8.55	8.85	8.11	8.00	8.72	8.79	9.46
1982	8.29	8.54	7.93	7.80	8.21	8.67	9.20
1983	6.88	6.86	6.75	6.88	6.67	7.14	7.29

Table 17. Percentage Return on Assets
All Insured Commercial Banks
In Six Southeast States
By State

Year	All Banks	States					
		Ala.	Fla.	Ga.	La.	Miss.	Tenn.
1979	1.04	1.09	1.01	1.16	1.14	1.05	0.85
1980	1.09	1.10	1.09	1.18	1.17	1.09	0.88
1981	1.01	1.04	0.86	1.25	1.24	1.01	0.78
1982	0.97	1.04	0.95	1.11	1.20	0.84	0.64
1983	0.94	1.07	0.92	1.10	1.02	0.82	0.67

Table 18. Percentage Return on Equity
All Insured Commercial Banks
In Six Southeast States
By State

Year	All Banks	States					
		Ala.	Fla.	Ga.	La.	Miss.	Tenn.
1979	14.06	13.91	13.51	15.48	15.42	14.59	12.11
1980	14.51	13.50	14.83	15.46	15.63	14.79	12.36
1981	13.64	12.63	12.32	16.77	16.39	13.54	10.86
1982	13.27	12.63	13.63	15.23	15.57	11.36	9.24
1983	13.08	13.21	13.85	15.86	12.68	11.09	9.80

Table 19. Percentage Return on Assets
All Insured Commercial Banks
With Assets Below \$25 Million

Year	By Percentile		
	75%	50%	25%
1979	1.57	1.23	0.93
1980	1.66	1.27	0.92
1981	1.70	1.26	0.86
1982	1.59	1.16	0.72
1983	1.51	1.07	0.58

Table 20. Percentage Return on Assets
All Insured Commercial Banks
With Assets of \$25-\$50 Million

Year	By Percentile		
	75%	50%	25%
1979	1.44	1.17	0.94
1980	1.53	1.21	0.92
1981	1.56	1.18	0.82
1982	1.54	1.17	0.80
1983	1.46	1.10	0.73

Distribution of Bank Profitability

The accompanying tables indicate that banks in general are less profitable than they have been in recent years and they indicate the bank size categories that have suffered the most. However, they provide no information on the distribution of profitability of banks within the size categories. For example, it may be that most banks have been unaffected by the changing environment, but that the most profitable banks are having problems maintaining their high returns. Such a loss of profitability at the most profitable banks would be bad news for their owners and managers, but it would pose no public policy problems. On the other hand, the decline could be concentrated in banks that already are least profitable. If the least profitable banks have been hardest hit, it raises the possibility of an increase in bank failures. An increase in the rate of failures would be important because the government must be concerned about a safe and sound banking system, and because the Federal Deposit Insurance Corporation (FDIC) insures at least the first \$100,000 of most bank deposits.

One way of analyzing the distribution of bank profitability is to study the return on asset figures at various profitability percentiles. We chose to look at the profitability of banks at the 25th, 50th and 75th percentiles in return on assets. Twenty-five percent of the banks had profitability lower than the bank at the 25th percentile, half the banks had a return on assets lower than the bank at the 50th percentile and three-quarters had profitability lower than the bank at the 75th percentile. The ranking was done separately for each year so that some banks will shift to a

different profitability ranges over the five years we analyze.¹⁰

An analysis of the return on assets of the six size groups at the 25th percentile, 50th percentile and 75th percentile indicates that the least profitable banks have suffered the greatest declines in profitability (Tables 19-24). The profitability of banks in the 75th percentile in 1983 generally is only slightly below their peak profitability over the 1979 to 1983 period (with the biggest exception being banks with assets below \$25 million). Indeed, in several size categories the banks in the 75th percentile were more profitable in 1983 than they were in 1979.

Banks at the 50th percentile fared somewhat worse, but they also avoided large profitability declines (with banks with assets below \$25 million again being the largest exception). The 50th percentile for banks with assets in excess of \$50 million dropped only slightly between 1979 and 1983.

The year 1979, however, was the best year for banks at the 25th percentile, with profitability generally failing throughout the period. Most of the loss in profitability for the banks with assets below \$25 million has come since 1981, most of the loss in profitability for banks with assets between \$25 million and \$1 billion came prior to 1981, and for banks above \$1 billion the loss is evenly split between the two periods. The declines in profitability (as measured by the percentage point change in return on assets) over the period for banks in the 25th percentile is far more than it is for banks at the 50th or 75th percentile. Much of the decline in profitability is being borne by what were already the least profitable banks.

Table 21. Percentage Return on Assets
All Insured Commercial Banks
With Assets of \$50-\$100 Million

Year	By Percentile		
	75%	50%	25%
1979	1.34	1.10	0.89
1980	1.42	1.14	0.89
1981	1.44	1.09	0.76
1982	1.46	1.11	0.79
1983	1.40	1.08	0.75

Table 23. Percentage Return on Assets
All Insured Commercial Banks
With Assets of \$500-\$1000 Million

Year	By Percentile		
	75%	50%	25%
1979	1.06	0.85	0.67
1980	1.08	0.89	0.67
1981	1.10	0.86	0.57
1982	1.12	0.86	0.57
1983	1.08	0.83	0.58

Table 22. Percentage Return on Assets
All Insured Commercial Banks
With Assets \$100-\$500 Million

Year	By Percentile		
	75%	50%	25%
1979	1.20	0.99	0.80
1980	1.24	1.00	0.77
1981	1.29	0.97	0.67
1982	1.27	0.96	0.66
1983	1.25	0.96	0.66

Table 24. Percentage Return on Assets
All Insured Commercial Banks
With Assets of Over \$1000 Million

Year	By Percentile		
	75%	50%	25%
1979	0.92	0.77	0.61
1980	0.92	0.73	0.56
1981	0.93	0.76	0.53
1982	0.92	0.75	0.49
1983	0.96	0.74	0.46

This does not necessarily imply that the government must do something to boost bank profitability. In particular, it does not imply that the Congressionally mandated deregulation of interest rates must be halted or reversed.

Deregulation has provided significant benefits to small savers, and it has kept money from flowing to money market mutual funds from banks. The problems may mean, however, that regulators will need to devote more resources to monitoring the condition of weak banks. Depositors also will need to watch the condition of weak banks more carefully, especially given the possibility that the FDIC will limit deposit insurance coverage to \$100,000 per depositor.¹¹

Conclusions

Commercial bank profitability fell across the nation and in the Southeast in 1983. The drop in profitability was due in part to increased loan

losses and a narrowing of the gap between bank interest revenue and interest expenses.

Southeastern banks continued to outperform the rest of the nation in 1983, but the relative prosperity was distributed unevenly. Georgia banks enjoyed the highest adjusted net interest margins, return on assets and return on equity. Banks in Mississippi and Tennessee continued to suffer relatively low profitability levels.

Our analysis indicates that the most profitable banks have seen hardly any drop in their profitability since 1979. However, the least profitable banks have seen the greatest drop in profitability during the 1979 to 1983 period. Our analysis suggests that the regulators and public will want to watch troubled banks more carefully in the future.

—Larry D. Wall

The author wishes to thank Joanne Dudley and Nancy Fox for their research assistance.

NOTES

¹This article provides information on commercial bank profitability from 1979 to 1983. Comparable profitability figures going back to 1972 are presented in "Commercial Bank Profitability" in the July 1983 issue of this *Economic Review* (Wall 1983a). Some of the figures presented in the July 1983 article differ slightly from those presented in this study because revisions have been made in the Report of Condition and Income data filed by commercial banks with the three federal bank regulatory agencies.

²See the Appendix for an explanation of how these ratios were calculated. The adjusted net interest margin contains two important adjustments to an ordinary net interest margin: an adjustment for taxes saved on tax exempt securities and an adjustment for loan loss provisions.

³The 1981 results were unusually good, however, for banks with assets below \$25 million, according to Wall (1983a).

⁴In this article the "Southeast" refers to the six states all or partially within the Sixth Federal Reserve District: Alabama, Florida, Georgia, Louisiana, Mississippi and Tennessee. The outlook for the economies of these states is reviewed in the February issue of this *Economic Review*.

⁵See the Appendix for a description of how each variable is calculated.

⁶Banks with assets in excess of \$1 billion have long paid market rates of interest on a large portion of their funds, so they have been relatively less affected by deregulation.

⁷See Wall (1983a) for a discussion of the effect of deposit-rate deregulation on bank profitability in 1982.

⁸The increase in loan losses means that individuals who invest only in bank stocks face greater risks, but it is not obvious how the losses affect investors who own a diversified portfolio of stocks.

⁹The comparisons of southeastern banks with assets in excess of \$1 billion with those of the rest of the nation are, however, somewhat inappropriate. The return figures for banks across the nation will be influenced significantly by the returns of the very large multinational banks that operate in worldwide markets. The return figures for the Southeast are for smaller banks that do most of their business in one region of the United States. Competition is fierce in the international markets and returns in these markets are often significantly lower than in regional markets in the United States.

¹⁰Bank rankings may change considerably from year to year but previous work by this author, reported in Wall (1983b), suggests the rankings are relatively stable through time. Wall (1983b), looked at the differences in bank profitability by quartile over the 10 year period from 1972 through 1981. He found that 114 banks that met his initial sample selection criteria were in the same quartile at least seven of the ten years in his sample period. He started with 358 banks that met his initial sample selection criteria.

¹¹In some cases the FDIC arranges for a healthy bank to assume all of the deposits, including those above \$100,000. The FDIC has been experimenting with limiting the coverage of depositors in all failed banks to \$100,000.

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APPENDIX

The data in this article were taken from the Reports of Condition and Income that insured commercial banks file with the Federal Reserve System. Data from the Reports of Condition have been modified at the Board of Governors to reflect bank mergers. The modifications attempt to match each bank's income with the assets used to produce that income. The pooling method of accounting combines the merged banks' income from the beginning of the year, whereas the purchase method combines their income as of the date of the merger. Therefore, for mergers that were accounted for using the pooling method, balance sheets are merged as of the beginning of the year if the merger took place during the first quarter of the year, June balance sheets are merged if the merger took place during any of the first three quarters of the year.

The three profitability measures used in this study are defined as follows:

$$\begin{aligned} \text{Adjusted Net Interest Margin} &= \frac{\text{Expected Interest Rev.} - \text{Interest Exp.}}{\text{Average Interest Earning Assets}} \\ \text{Return on Assets} &= \frac{\text{Net Income}}{\text{Average Assets}} \\ \text{Return on Equity} &= \frac{\text{Net Income}}{\text{Average Stockholder Equity}} \end{aligned}$$

Average interest earning assets and average stockholders' equity are the average of the beginning, middle and end-of-the-year balance sheet figures. The expected interest income component to net interest margin has two significant adjustments from ordinary interest income. One adjustment is that revenue from state and local securities exempt from federal income taxes is grossed up by the bank's marginal tax rate. This prevents banks from being penalized because they hold substantial portfolios of state and local securities to reduce their tax burden. The other adjustment is that loan losses are subtracted from interest income. This is done so that banks that make low-risk loans at low interest rates are placed on a more equal footing with those that make high-risk loans involving high interest income.

Economic Influence of Retirees on Selected Southeastern Communities

A steady stream of older Americans is migrating to the Southeast. The influx is so strong that in some parts of the region as much as one fourth of the personal income comes from public retirement funds. In a previous article, we identified counties in the region that have experienced the fastest gains in retired residents and those areas that have higher than average concentrations of Social Security income.¹

Obviously, the economic impact of retirement income in these counties is substantial. As consumers, older citizens purchase a particular mix of goods and services. What are the retirees' income and spending patterns? If the wave of retirees migrating to the South continues, how will they transform the economic structure of local communities with growing retiree populations?

Background: Retirees Head South

In the six Sixth District states, the 65-plus population grew much faster (49 percent) than did the general population (24 percent) in the 1970s. Since the 1980 Census, the above-average growth of senior citizens in the District has continued. While the District's overall population grew

by almost 4 percent between April 1980 and July 1, 1982, the 65-and-over population increased by nearly 6 percent.

Not only did the number of elderly expand faster than the general population, but much of that growth was from in-migration. The increase

in the number of elderly men and women who moved from one state to another in the last decade was almost five times as large as the increase from 1960 to 1970.

More than a fourth of all interstate migrants took up new residence in Florida during the last decade.

Florida's percentage of residents over 65 was 17 percent in 1980, the highest by far of any state. Arkansas, another Sunbelt state, was a distant second, with just under 14 percent. In Arizona, a haven for affluent retirees, only 11 percent of the population is 65 and over.

Although it has been known for some time that many of the elderly who migrated were taking up new residence in the Sunbelt, the staggering increase during the 1970s was surprising because it occurred during a period of economic adversity—three recessions and the worst outburst of inflation in the postwar period.

Many factors are responsible for the accelerated elderly migration. One frequent explanation

The increasing flow of older Americans in the Southeast is often publicized. Less well-known, however, is the fact that older Americans control an increasing share of the nation's discretionary income. Taken together, those two trends promise to transform the economies of some communities in the region.

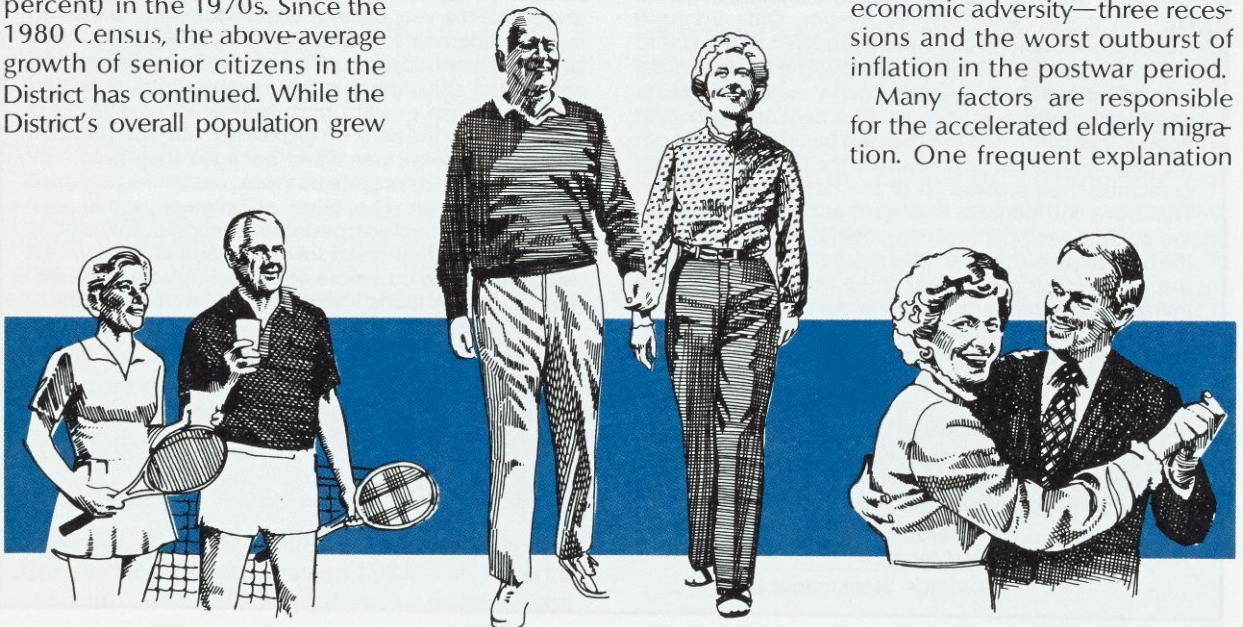


Table 1. Public Retirement Income: A Growing Share of Personal Income in the Region, 1970, 1980

State	Retirement Income		Percent of Total Personal Income	
	1970	1980	1970	1980
	(\$ 000)			
Alabama	643,100	2,728,435	6.4	9.4
Florida	2,034,400	10,033,500	7.9	11.3
Georgia	767,300	3,455,900	5.0	7.9
Louisiana	600,500	2,459,400	5.4	6.9
Mississippi	374,800	1,578,600	6.6	9.5
North Carolina	819,433	3,667,919	5.3	8.0
South Carolina	433,816	2,015,375	5.6	8.9
Tennessee	708,000	2,982,300	5.8	8.4
Region Total	6,381,349	28,921,429	6.4	9.1
U. S. Total	43,348,000	166,267,000	5.3	7.7
Region Total as % of U. S.	14.7	17.4	—	—

Source: U. S. Department of Commerce, **Survey of Current Business**, unpublished tabulations, and the Federal Reserve Bank of Atlanta.

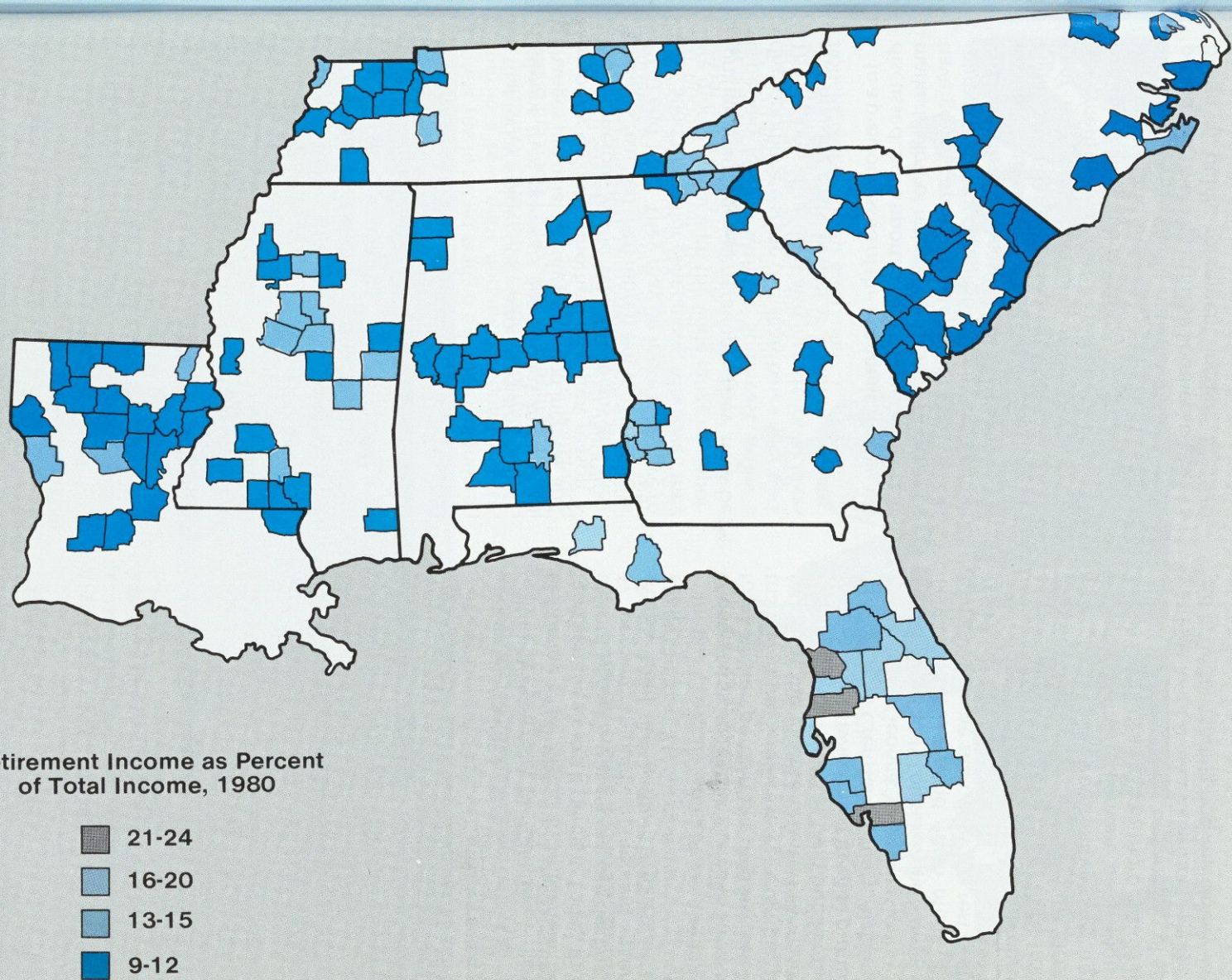
is that today's older population is relatively more affluent than previous generations because of changes in Social Security, pension income, and property income. Another important reason is that numerous World War II veterans and their spouses reached their retirement years between 1970 and 1980. They may be more receptive to relocation than prior generations. Moreover, they are more familiar with the wide range of opportunities than prior generations. They may be especially familiar with the Southeast, where a disproportionate share of military bases is located. The region's attractions also include lower taxes and housing costs as well as a warmer climate.

In a previous issue of the **Economic Review**, we discussed an important consequence of the marked inflow of retirees: Social Security pensions have grown commensurately with the influx of retirees and now comprise a significant share of income in the Southeast. In 1970, the \$6.4 billion in public retirement income that flowed into the eight-state Southeast² represented only 6 percent of its total personal income. By 1980, retirement income had increased over fourfold to \$28.4 billion and accounted for 9 percent of personal income (Table 1). This income source also rose rapidly at the national level over the period, but by less than in the Southeast. The \$43 billion in public retirement income in 1970

represented slightly over 5 percent of all personal income in the nation. By 1980, these plans were disbursing \$166 billion in retirement benefits, representing almost 8 percent. Today, the southeastern region is the geographic destination for 17 percent of public retirement income, up sharply from just under 15 percent 10 years earlier.

In our previous article, we identified 120 counties in six states that looked to Social Security for a higher percentage of personal income than even the Southeast. For example, nearly a fourth of the income received by residents of Pasco County, Florida, is from public retirement pensions, over twice the statewide proportion of 11.3 percent. Crenshaw County, Alabama; Quitman County, Georgia; Yalobusha County, Mississippi; Sabine Parish, Louisiana; and Stewart County, Tennessee, all depend much more on public pension income than does the rest of the state (see Map 1).

To understand the degree to which consumption patterns in these communities differ from those of other localities, we will examine income patterns, taxable sales and information from local experts. If the retirement population in the region continues to grow more rapidly than the rest of the population, our analysis of spending patterns in local areas with many retirees could aid in understanding how the elderly will shape



Source: U. S. Department of Commerce, **Survey of Current Business**, unpublished tabulations, and the Federal Reserve Bank of Atlanta.

Top Southeastern Counties in Retirement Income

ALABAMA

County	Retirement Income as Percent of Personal Income		County	Retirement Income as Percent of Personal Income	
	1970	1980		1970	1980
	(\$ 000)			(\$ 000)	
Crenshaw	2,315	8,818	Pasco	34,548	298,448
Covington	7,499	31,204	Citrus	9,629	80,574
Randolph	3,625	14,887	Charlotte	18,467	108,274
Hale	2,963	10,278	Hernando	6,292	60,745
Perry	2,387	8,481	Highlands	10,649	82,967
Butler	3,882	14,815	Pinellas	295,243	1,164,800
Concuh	2,731	10,271	Volusia	74,291	342,530
Wilcox	2,623	8,986	Sumter	4,456	23,571
Henry	2,248	10,676	Washington	2,886	12,709
Chilton	4,843	21,039	Lake	26,282	141,828
Greene	1,730	6,480	Manatee	39,543	135,041
Tallapoosa	11,917	52,292	Polk	44,372	207,506
Clay	2,196	8,232	Putnam	6,699	46,515
Coosa	1,897	7,364	Sarasota	69,029	352,603
Franklin	4,689	20,343	Liberty	836	3,089
Tallapoosa	6,069	27,283	Lee	46,683	283,358
Bobb	2,792	10,270	Ocala	9,033	48,902
DeKalb	7,196	31,592	Okeechobee	2,327	16,681
Chambers	6,390	26,319	Total Counties	703,265	3,391,241
Marion	3,891	18,109	State Total	2,034,400	10,033,500
Total Counties	83,913	349,579	U. S. Total	43,348,000	166,267,000
State Total	643,100	2,728,435			
U. S. Total	43,348,000	166,267,000			

FLORIDA

County	Retirement Income as Percent of Personal Income		County	Retirement Income as Percent of Personal Income	
	1970	1980		1970	1980
	(\$ 000)			(\$ 000)	
Quitman	348	1,651	Towns	875	4,565
Union	1,172	6,170	Stewart	1,081	4,132
Calhoun	1,321	4,535	Calhoun	514	1,815
Tallapoosa	1,688	6,102	Randolph	604	2,007
Clay	1,641	7,769	Rebun	1,138	5,469
McIntosh	2,294	10,651	Fannin	1,820	7,892
Pierce	3,550	15,934	Chattahoochee	1,973	7,722
Franklin	1,931	10,859	Worth	1,931	10,859
Greene	2,569	12,553	Emanuel	286	1,185
Webster	3,200	13,814	Toombs	863	3,940
Twigg	31,222	139,281	Total Counties	767,300	3,455,900
State Total	43,348,000	166,267,000	U. S. Total	43,348,000	166,267,000

GEORGIA

County	Retirement Income as Percent of Personal Income		County	Retirement Income as Percent of Personal Income	
	1970	1980		1970	1980
	(\$ 000)			(\$ 000)	
Sabine	5,925	15,951	Grant	2,807	11,435
West Carroll	1,932	7,854	Madison	3,260	12,509
Blenville	2,906	10,986	LaSalle	3,461	13,473
Allen	3,218	11,306	Winn	1,779	6,690
Caldwell	3,359	12,927	Jackson	8,090	34,598
Webster	1,384	4,941	Tensas	8,108	32,346
Washington	3,511	12,346	Claborn	2,893	12,303
Franklin	3,328	13,729	Union	4,576	16,467
DeSoto	5,505	21,857	Acoville	1,693	5,920
Catuhoua	4,319	17,934	Evangeline	74,429	283,759
State Total	600,500	2,456,400	State Total	600,500	2,456,400
U. S. Total	43,348,000	166,267,000	U. S. Total	43,348,000	166,267,000

LOUISIANA

County	Retirement Income as Percent of Personal Income		County	Retirement Income as Percent of Personal Income	
	1970	1980		1970	1980
	(\$ 000)			(\$ 000)	
Yalobusha	2,670	10,219	Alta	3,745	15,200
Lawrence	2,445	9,444	Newton	4,466	17,885
Montgomery	2,417	9,662	Holmes	3,879	13,708
Kemper	1,501	6,050	Carroll	1,261	4,754
Quitman	2,317	7,194	Franklin	1,542	5,563
George	2,258	10,437	Copiah	4,877	18,662
Noxubee	2,180	7,295	Tallahatchie	2,575	9,080
Calhoun	2,551	10,101	Leake	3,022	12,369
Pike	8,859	24,296	Walthall	1,904	8,111
Marion	4,163	17,129	Sharkey	1,167	4,302
Total Counties	56,797	221,501	State Total	374,800	1,578,600
U. S. Total	43,348,000	166,267,000	U. S. Total	43,348,000	166,267,000

MISSISSIPPI

County	Retirement Income as Percent of Personal Income		County	Retirement Income as Percent of Personal Income	
	1970	1980		1970	1980
	(\$ 000)			(\$ 000)	
Clay	1,069	5,745	Dare	2,191	13,782
Cumtuck	1,941	10,758	Perquimans	1,676	7,835
Currituck	7,405	38,490	Swain	1,840	8,164
Cherokee	3,305	13,345	Camden	1,013	4,152
Northampton	3,574	14,192	Hyde	1,003	4,152
Moore	8,947	48,944	Chowan	2,243	9,741
Pamlico	1,835	8,551	Moore	8,947	48,944
Avery	2,058	8,891	Pamlico	1,835	8,551
Richmond	8,902	34,275	Avery	2,058	8,891
Allegheny	1,589	6,056	Richmond	8,902	34,275
Pender	3,192	15,787	Allegheny	1,589	6,056
Yancey	2,001	8,946	Pender	3,192	15,787
Halifax	9,230	36,824	Yancey	2,001	8,946
Jones	1,570	6,577	Halifax	9,230	36,824
Total Counties	66,604	306,579	Jones	1,570	6,577
State Total	819,433	3,667,919	Total Counties	66,604	306,579
U. S. Total	43,348,000	166,267,000	State Total	819,433	3,667,919

NORTH CAROLINA

County	Retirement Income as Percent of Personal Income		County	Retirement Income as Percent of Personal Income	
	1970	1980		1970	1980
	(\$ 000)			(\$ 000)	
McCormick	1,406	5,508	Albemarle	1,503	6,155
Clarendon	3,277	15,041	Clarendon	3,277	15,041
Colleton	4,739	21,215	Colleton	4,739	21,215
Marlboro	4,066	17,236	Marlboro	4,066	17,236
Sumter	12,593	60,387	Sumter	12,593	60,387
Jasper	1,722	8,081	Jasper	1,722	8,081
Lee	2,052	9,483	Lee	2,052	9,483
Hampton	3,046	11,933	Hampton	3,046	11,933
Newberry	5,645	20,796	Newberry	5,645	20,796
Bamberg	2,425	10,007	Bamberg	2,425	10,007
Charleston	50,826	234,621	Charleston	50,826	234,621
Marion	4,825	19,516	Marion	4,825	19,516
Horry	11,860	71,078	Horry	11,860	71,078
Orangeburg	10,700	48,974	Orangeburg	10,700	48,974
Chester	5,221	21,561	Chester	5,221	21,561
Georgetown	7,572	27,184	Georgetown	7,572	27,184
Dillon	3,635	15,044	Dillon	3,635	15,044
Oconee	7,189	33,084	Oconee	7,189	33,084
Total Counties	150,480	683,584	Total Counties	150,480	683,584
State Total	433,816	2,015,375	State Total	433,816	2,015,375
U. S. Total	43,348,000	166,267,000	U. S. Total	43,348,000	166,267,000

SOUTH CAROLINA

County	Retirement Income as Percent of Personal Income		County	Retirement Income as Percent of Personal Income	
	1970	1980		1970	1980
	(\$ 000)			(\$ 000)	
Stewart	1,688	6,165	Stewart	1,688	6,165
Pickett	476	2,507	Pickett	476	2,507
Fentress	2,003	8,374	Fentress	2,003	8,374
Permy	661	4,394	Permy	661	4,394
Campbell	6,341	25,644	Campbell	6,341	25,644
Cumberland	3,520	19,922	Cumberland	3,520	19,922
Polk	2,536	10,683	Polk	2,536	10,683
Houston	1,191	5,528	Houston	1,191	5,528
White	3,079	13,094	White	3,079	13,094
Hardeman	3,663	15,333	Hardeman	3,663	15,333
Gibson	8,984	38,068	Gibson	8,984	38,068
Benton	2,787	12,090	Benton	2,787	12,090
Carroll	5,475	22,753	Carroll	5,475	22,753
Weakley	5,876	23,135	Weakley	5,876	23,135
Lauderdale	3,732	15,468	Lauderdale	3,732	15,468
Henry	6,662	24,349	Henry	6,662	24,349
Overton	2,474	9,779	Overton	2,474	9,779
Crockett	2,697	10,775	Crockett	2,697	10,775
Grundy	1,918	7,470	Grundy	1,918	7,470
Total Counties	46,314	282,523	Total Counties	46,314	282,523
State Total	708,000	2,982,300	State Total	708,000	2,982,300
U. S. Total	43,348,000	166,267,000	U. S. Total	43,348,000	166,267,000

TENNESSEE

County	Retirement Income as Percent of Personal Income		County	Retirement Income as Percent of Personal Income	
	1970	1980		1970	1980
	(\$ 000)			(\$ 000)	
Yalobusha	2,670	10,219	Alta	3,745	15,200
Lawrence	2,445	9,444	Newton	4,466	17,885
Montgomery	2,417	9,662	Holmes	3,879	13,708
Kemper	1,501	6,050	Carroll	1,261	4,754
Quitman	2,317	7,194	Franklin	1,542	5,563
George	2,258	10,437	Copiah	4,877	18,662
Noxubee	2,180	7,295	Tallahatchie	2,575	9,080
Calhoun	2,551	10,101	Leake	3,022	12,369
Pike	8,859	24,296	Walthall	1,904	8,111
Marion	4,163	17,129	Sharkey	1,167	4,302
Total Counties	56,797	221,501	State Total	374,800	1,578,600
U. S. Total	43,348,000	166,267,000	U. S. Total	43,348,000	166,267,000

the future economic structure of other localities in the region.

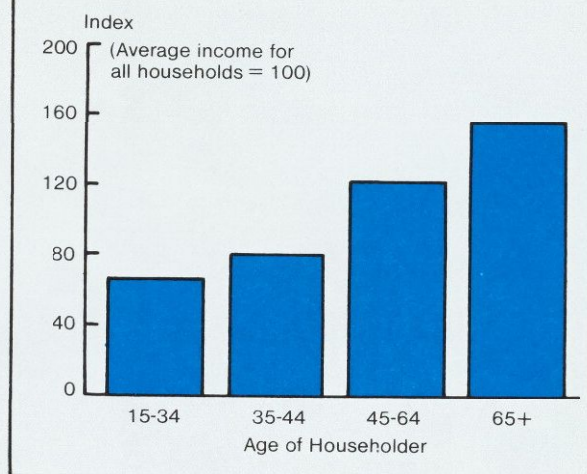
Senior Citizens as Consumers

For obvious reasons, older people spend their money differently than younger ones. About 70 percent of them own their homes and 80 percent of them have paid off their mortgages, so they can be expected to spend less on housing than younger people. They also spend more on food, medical care, and utilities, and comprise a growing market for travel, vacation homes, new automobiles, entertainment, and restaurants. Those who are in good health devote a larger proportion of their spending to outdoor recreation—golf, tennis, fishing, tourism, and camping. They spend less on such items as clothing, durable goods, and education.

Consider a recent study by the Consumer Research Center, Conference Board, and Bureau of the Census, which estimated discretionary income by age of householder. According to this study, roughly a third of American households had at least some spendable income in 1980. In contrast, only a fourth of the nation's households with elderly heads had some discretionary income. However, the elderly households' \$33.6 billion of discretionary income in 1980 represented 17 percent of the total discretionary income in the country, although the over-65 population represents only 11 percent of the population. Per capita income of members of households headed by persons 65 and older is helped by the fact that these households are, on average, smaller than younger households. Indeed, per capita discretionary income of members of elderly households in 1980 was 55 percent higher than average and more than twice as much as per capita income of those who live in households headed by people under 35 years old (Chart 1).

The older residents' higher discretionary income has an important effect on the economy. Retirement income is steadier than employment income. (Table 2 shows how the portion of all disposable income comprised of public retirement funds has been rising since 1959 for the states in the District.) Monthly checks from Social Security, military, civil service, state, local, and private pensions come regularly in good times and in bad times. The steadiness of this income is especially critical to local communities that depend on retirement income, as many in the

Chart 1. Index of Spendable Discretionary Income by Age of Householder



Southeast do, to keep the wheels turning. In younger households that rely on employment income for most of their family income, the unexpected loss of a job can devastate the family's budget. For older householder-families, where a larger proportion of income is discretionary, spending goes on almost irrespective of the state of the economy. Therefore, communities that rely more heavily on incomes of the elderly should be affected less by recessions than other communities. In our view, the graying of the population in the United States and particularly in the Southeast could cause this nation and the region to become less cyclically sensitive than in the past.

Furthermore, since a larger proportion of spendable discretionary income goes to the elderly, they spend proportionately more on nondurables and services than the rest of the population. Consequently, the nondurable and service sectors should become an even larger source of jobs and income to the Southeast.

Retirement Income on the Rise

The fact that the southeastern economy relies heavily on public pension income should come as no surprise to those familiar with the region's demographic composition. In 1970, slightly over 11 percent of the population in the region was

Table 2. Importance of Public Retirement Income
to Sixth District States, 1959-1980
(millions of dollars)

State	1959	1965	1970	1975	1980
ALABAMA					
Disposable Income	4,300	6,093	8,743	14,714	24,659
Public Retirement Income	169.8	338.3	643.1	1,452.8	2,728.4
Percent	.040	.056	.074	.099	.111
FLORIDA					
Disposable Income	8,404	12,783	22,375	41,591	77,017
Public Retirement Income	476.5	1,002.8	2,034.4	5,007.2	10,003.5
Percent	.057	.088	.091	.120	.130
GEORGIA					
Disposable Income	5,646	8,481	13,168	21,988	37,165
Public Retirement Income	196.2	402.1	777.3	1,808.1	3,455.9
Percent	.035	.047	.059	.084	.093
LOUISIANA					
Disposable Income	4,714	6,640	9,831	16,431	30,519
Public Retirement Income	146.1	305.9	600.5	1,333.0	2,459.4
Percent	.031	.046	.061	.081	.081
MISSISSIPPI					
Disposable Income	2,388	3,374	4,999	8,500	14,390
Public Retirement Income	101.3	200.9	374.8	847.7	1,578.6
Percent	.042	.060	.075	.10	.11
TENNESSEE					
Disposable Income	4,959	7,048	10,634	17,231	30,231
Public Retirement Income	197.6	378.9	708.0	1,592.1	2,982.3
Percent	.040	.054	.067	.089	.099
DISTRICT STATES					
Disposable Income	30,421	44,419	69,750	120,455	213,981
Public Retirement Income	1,287.5	2,628.9	5,138.1	12,040.9	23,208.1
Percent	.042	.059	.074	.10	.10
UNITED STATES					
Disposable Income	335,007	471,557	689,190	1,090,778	1,817,702
Public Retirement Income	13,805	24,727	43,589	91,890	166,267
Percent	.041	.052	.063	.084	.092

Source: Disposable personal income from **Survey of Current Business** (various issues) and public retirement income from unpublished tabulations from U. S. Department of Commerce.

65 years of age and over. Rapid in-migration of retirees in recent years, as well as aging of the local population due to declining birth rates and increasing life expectancy, has raised the proportion to 13 percent today. Therefore, given the increase in relative size of the population sub-group that relies more extensively on retirement income, we would also expect the share of income from this source to have become more important.

However, the fraction of personal income from retirement has grown even faster than the

above-average growth of the retirement population. The fraction of personal income from this source is less than the percentage of the population that is retirement age in all eight states and the nation. However, the percentage of income from retirement has grown faster than the percentage of retirement population over the last 10 years. For instance, in 1970 public retirement income accounted for just over 6 percent of personal income, while the 65 and over population comprised about 11 percent. Therefore, the elderly

received little more than half of the income they would have received had their income been in line with their representation in the population. By 1980, this fraction had risen to almost four-fifths. The sharp rise suggests that per capita income of retirees who depend exclusively upon one or more government-administered retirement plans increased noticeably in the last few years.

Military, Social Security, railroad retirement, civil service, and state and local retirement systems account for roughly half the income of the elderly. To improve our understanding of retirees' economic influence on the southeastern economy, we expanded our income measure beyond public pensions to include all incomes of families headed by persons 65 and over, including wages, interest, rents, royalties, and dividends from stocks, 65 and over. We compared their incomes with those of families whose heads were under 65 years of age to determine if their non-pension income also was rising. The product of mean-family income and number of families was computed for four age groups to ascertain a measure of aggregate income for each group. We focused on the six states in the Sixth District. Where possible, we included data for North Carolina and South Carolina as well.

Income of household heads 65 and over is indeed a significant fraction of family income in the Southeast, and the economic impact of these older families increased noticeably during the last decade. These families' income rose from \$5 billion, 11 percent of family income and just over 8 percent of personal income in 1969, to nearly \$18 billion, which is almost 14 percent of family income and 10 percent of personal income, by 1979.

In Florida, the most popular state for retirees, families with householders 65 and over had an aggregate income in 1979 of \$10.8 billion. Not only was this income large, it comprised a significant fraction of income in the state. Households with heads 65 and over received almost 19 percent of the \$57.7 billion incomes of families, or nearly 14 percent of the state's personal income. While Florida's elderly families accounted for a larger share of family income than in other southeastern states, elderly families also represented a significant proportion of family income in those other states. Elderly-householder families in other southeastern states received between 9 and 11 percent of total family income in 1983.

The dramatic improvement in relative economic status of the elderly also can be seen by comparing average family incomes. These income comparisons are shown in Tables 3 and 4 for the six states in the District. Average incomes of older families are less than those of younger families in those southeastern states. Florida, where the elderly-householder families received about 20 percent less than their proportionate share, is the only state in the District where families headed by the elderly come even close to equaling their fraction of households. Louisiana is a distant second to Florida in that families headed by persons 65 and over received an aggregate income only 70.1 percent of what might be expected based on their representation in that state's population.

While cross-sectional comparisons of the relative status of elderly families are interesting, changes in their relative income can be even more informative. Social Security taxes were raised substantially over the last decade to keep the trust fund solvent. Our analysis suggests that the elderly gained significantly in relation to younger families during the 1970s. The average family income for the elderly (\$6,052) rose from 67 percent of the average for all families (\$9,035) in the region in 1969 to 75 percent in 1979. This implies that the elderly households witnessed a 10 percent increase in their relative standard of living in the District between 1969 and 1979.

This improvement in the relative economic position of elderly families during the last decade represents a turnaround from the 1960s. During the 1960s, incomes of families headed by people 65 and over fell from 45 percent of their proportionate share of all families at the beginning of the decade to 40 percent at its end.³ The remarkable rise in relative incomes of the elderly during the 1970s occurred in all six states. In Louisiana, elderly families rose from 66 percent of median incomes of householders under 25 to 76 percent by 1979. In Alabama, older families' income rose from 62 percent of median-family income in the state in 1969 to 73 percent in 1979. In Florida where the elderly families receive about as much income as families in general, their relative status was 18 percent greater than younger (25-34) family heads in 1979.

Retirees' enhanced economic position is even more startling considering that older families generally are smaller than younger families. Alabama, for instance, counted 3.3 members per

Table 3. Number of Families,
Average and Per Capita Income
By Age of Householder, Southeast 1979

ALABAMA			
Age	Number of Families	Average Family Income	Per Capita Income
15-34	320,724	16,756	5,010
35-44	270,705	16,073	5,051
45-64	339,308	22,568	7,040
65+	164,834	12,673	5,117
Total	1,105,571	18,893	5,689
FLORIDA			
15-34	660,262	17,663	5,540
35-44	485,336	24,313	6,178
45-64	929,742	25,205	8,394
65+	631,145	17,156	7,640
Total	2,706,485	21,328	7,019
GEORGIA			
15-34	472,993	17,294	5,235
35-44	315,148	24,149	5,951
45-64	461,265	24,400	7,629
65+	182,925	14,341	5,835
Total	1,432,331	20,713	6,223
LOUISIANA			
15-34	366,668	18,282	5,439
35-44	217,201	24,359	5,642
45-64	345,874	25,673	7,671
65+	144,734	15,046	5,977
Total	1,074,477	21,454	6,243
MISSISSIPPI			
15-34	201,641	15,838	4,552
35-44	127,497	20,815	4,767
45-64	208,495	20,481	6,163
65+	107,820	11,788	4,583
Total	645,453	17,642	5,110
TENNESSEE			
15-34	388,133	16,859	5,194
35-44	258,605	22,676	5,688
45-64	414,667	23,945	7,737
65+	190,821	13,635	5,622
Total	1,252,226	19,952	6,177
DISTRICT			
15-34	2,410,421	17,281	5,250
35-44	1,674,492	22,437	5,714
45-64	2,709,351	24,231	7,702
65+	1,422,279	15,182	6,385
Total	8,216,543	20,260	6,304

Table 4. Number of Families,
Average and Per Capita Income
By Age of Householder, Southeast 1969

ALABAMA			
Age	Number of Families	Average Family Income	Per Capita Income
15-34	241,681	7,775	2,088
35-44	180,731	9,911	2,132
45-64	324,879	9,253	2,682
65+	127,368	4,973	1,899
Total	874,659	8,357	2,288
FLORIDA			
15-34	427,744	8,598	2,349
35-44	353,677	11,501	2,576
45-64	646,276	11,670	3,684
65+	383,670	7,390	3,269
Total	1,811,367	10,005	2,991
GEORGIA			
15-34	363,981	8,569	2,333
35-44	244,676	10,949	2,389
45-64	406,227	10,561	3,097
65+	134,887	5,836	2,257
Total	1,149,771	9,459	2,594
LOUISIANA			
15-34	254,608	7,838	2,010
35-44	186,401	10,150	2,061
45-64	317,592	9,769	2,776
65+	114,171	5,611	2,137
Total	872,772	8,743	2,292
MISSISSIPPI			
15-34	143,662	7,180	1,828
35-44	105,659	8,712	1,759
45-64	197,460	7,898	2,144
65+	87,663	4,165	2,069
Total	534,444	7,253	1,947
TENNESSEE			
15-34	291,360	7,996	2,206
35-44	209,821	10,077	2,254
45-64	375,682	9,591	2,901
65+	147,583	5,165	2,039
Total	1,024,446	8,599	2,440
DISTRICT			
15-34	1,723,036	8,144	2,191
35-44	1,280,965	10,511	2,274
45-64	2,268,116	10,186	3,024
65+	995,342	6,052	2,510
Total	6,267,459	9,035	2,530

Source: U. S. Department of Commerce, Bureau of the Census, 1980
Census of Population: Detailed Population Characteristics,
United States Summary and Selected States (PC80-1-B2).

Source: U. S. Department of Commerce, Bureau of the Census, 1980
Census of Population: Detailed Population Characteristics,
United States Summary and Selected States (PC80-1-B2).

Table 5. Retail Sales in Tennessee Retirement Counties,* 1972 and 1980

Vendor Category	Five Retirement Counties			Tennessee		
	(dollars)		Annual Percent Change	(dollars)		Annual Percent Change
	1972	1980		1972	1980	
Building materials, hardware, garden supply, and mobile home dealers	7,788	24,352	26.6	525,268	1,225,741	16.7
General merchandise group stores	9,269	39,127	40.3	1,212,564	2,351,040	11.7
Food stores	42,318	99,984	17.0	1,825,561	4,674,349	19.5
Automotive dealers	31,744	51,959	8.0	1,946,830	3,385,118	9.2
Gasoline service stations	12,876	31,799	18.4	663,044	2,012,996	25.5
Apparel and accessory stores	5,605	10,296	10.5	418,625	734,774	9.4
Furniture, home furnishings, and equipment sales	4,736	10,623	15.5	394,720	675,343	8.9
Eating and drinking places	14,564	25,109	9.1	510,064	1,405,434	21.9
Drug stores and proprietary stores	5,219	11,367	14.7	271,066	589,118	14.7
Miscellaneous retail stores	17,589	18,643	0.6	698,374	1,428,564	13.1
Total retail sales	151,978	323,259	14.1	8,466,116	18,482,477	14.8

Source: 1972 Census of Retail Trade: Area Statistics and untabulated sales by vendor from the Tennessee Department of Revenue.

*Campbell, Cumberland, Henry, Houston, and Stewarts Counties.

family in 1980 but only 2.4 members per family headed by persons over 65. Thus, comparing median income for elderly families to median incomes of all families in Alabama understates the relative affluence of older Alabama families. To adjust median incomes for differences in family size, we compared per capita income of members of families headed by householders over 65 to per capita income of people in all households.

As would be expected, adjusting for differences in family size significantly raised the economic position of members of families headed by those over 65 relative to per capita income of family members in general. In Alabama, the adjustment raised the 1979 relative income of family members with heads over 65 from 49 percent of per capita income in 25-34 year old families to 74 percent. On the other hand, the rise in relative income of older households is less when the per capita measure is used rather than median. Between 1969

and 1979, relative median income of older families leaped 31 percent in Alabama while per capita income available to members of households headed by people over 65 rose 24 percent. Slower relative growth of per capita income is due to more pronounced declines in the number of people in the younger families.

The relative improvement in prosperity of elderly families in the District and their growing economic impact in the economy is even stronger when we consider their declining labor force participation rates. For example, the percentage of Alabama's over-65 population either working or looking for work declined from 22 percent in 1969 to 17 percent by 1979. On the other hand, the participation rate of all of Alabama's population declined only slightly—from 73 percent in 1969 to 72 percent in 1979. Labor force participation among males over 65 declined sharply while the participation rate among females 65-plus generally increased. But all states in the

Table 6. Retail Sales in Mississippi Retirement Counties,* 1972 and 1980

Vendor Category	Four Retirement Counties			Mississippi		
	1972	1980	Annual Percent Change	1972	1980	Annual Percent Change
Building materials, hardware, garden supply, and mobile home dealers	6,287	17,059	17.1	246,860	675,515	15.8
Automotive Dealers	16,085	24,703	5.4	962,001	1,608,068	6.1
Furniture and home furnishings	3,300	4,476	3.6	176,042	419,430	12.6
General merchandise group stores	7,650	30,985	30.5	460,390	1,468,819	18.7
Gasoline service stations	7,618	29,940	29.3	307,331	1,475,688	31.7
Apparel and accessory stores	3,866	3,265	-1.6	235,149	317,847	3.2
Eating and drinking places	2,450	6,533	16.7	188,697	795,005	29.2
Food stores	25,514	64,898	15.4	955,397	2,765,562	17.2
Miscellaneous retail stores	8,997	48,061	43.4	429,600	881,490	9.6
Total retail sales	81,767	229,924	18.1	3,961,424	10,407,424	14.8

Source: 1972 Census of Retail Trade: Area Statistics and untabulated sales by vendor from the Mississippi Department of Revenue.

*Yalobosha, Attala, Lawrence, and Newton Counties.

Southeast witnessed a decline in labor force participation among those over 65.

Economic Impact

What goods, services, and investments are purchased by those receiving retirement income? Where are they making these purchases? Are there any unmet needs of these persons sufficient to encourage new business endeavors?

To begin to answer these questions, we analyzed the pattern of sales in five Tennessee and four Mississippi retirement counties (Tables 5 and 6). Retail sales rose 14.1 percent a year between 1972 and 1980 in the five retirement counties in Tennessee, slightly less than the 14.8 percent increase per year for the state. This is typical of areas with an influx of retirees. However, the impact is on the mixture of sales rather than the total quantity.

In fact, we found sales by vendors of building materials, hardware, gardening supplies, furniture,

general merchandise, and apparel in these predominately rural Mississippi and Tennessee counties growing much more rapidly than in the state as a whole. Demand for materials used in building new housing and remodeling existing homes raised the demand for material and home furnishings by 26.6 percent a year from 1972 to 1980 in the five counties, compared with 16.7 percent per year for the state. Sales by general merchandise stores (mostly department stores) rose 40 percent annually over the same period, more than triple the 12 percent annual increase for the state. Apparel stores apparently also benefited as retirees revised their wardrobes to go with their new lifestyles. Sales at clothing stores in the retirement counties rose 10.5 percent annually compared with 9.4 percent a year for the state. Retail merchants experiencing slower growth were food stores, automobile dealers, gasoline service stations, and eating and drinking places.

Although taxable sales information is available in too little detail to allow us to determine

Table 7. Retail Spending Patterns in Retirement Counties in Mississippi and Tennessee*
(Selected Years)

Vendor Class	Four Retirement Counties				Mississippi			
	1972	Percent of Total	1982	Percent of Total	1972	Percent of Total	1982	Percent of Total
Durables	25,672	31	46,238	20	1,384,903	35	2,703,413	26
Nondurables	56,095	69	183,686	80	2,576,564	65	7,704,001	74
Total	81,767		229,924		3,961,467		10,407,414	

Vendor Class	Five Retirement Counties				Tennessee			
	1972	Percent of Total	1982	Percent of Total	1972	Percent of Total	1982	Percent of Total
Durables	44,268	29	86,934	27	2,864,818	34	5,286,202	28
Nondurables	107,710	71	236,325	73	5,601,298	66	13,196,275	72
Total	151,978		323,259		8,466,116		18,482,477	

Vendor Class	Nine Retirement Counties				Mississippi and Tennessee			
	1972	Percent of Total	1982	Percent of Total	1972	Percent of Total	1982	Percent of Total
Durables	69,940	30	133,172	24	4,249,721	34	7,989,615	28
Nondurables	163,805	70	420,011	76	8,177,862	66	20,090,276	72
Total	233,745		553,183		12,427,583		28,079,891	

Source: **1972 Census of Retail Trade: Area Statistics** and unpublished reports from State Departments of Revenue.

*Retirement counties in Tennessee are Campbell, Cumberland, Henry, Houston, and Stewart. For Mississippi, retirement counties include Yalobusha, Attala, Lawrence, and Newton.

specific commodities experiencing rapid growth, the concentration of retirees near lakes provides some clues. Judging from our study, those who specialize in boats, fishing tackle and other recreational goods should be primary beneficiaries of the inflow of retirees. Vendors of goods and services for other leisure activities such as golf also should benefit. Land values should increase along with the demand for shelter, and the property tax base also should increase.

Our analysis of taxable sales in retirement counties of Mississippi and Tennessee also supports the view that retirees spend proportionately less on durables than nondurables. In the nine retirement counties—five in Tennessee and four

in Mississippi—we observed less spending on durables than in the states in general. Durable goods sales fell proportionately more than nondurables in both the Tennessee and Mississippi counties between 1972 and 1982, partly because of substantially higher interest rates in 1980 (Table 7). Durable goods vendors accounted for 30 percent of 1972 sales in the nine retirement counties compared with 34 percent for the two states. By 1982, durables could claim only 24 percent of sales in retirement counties versus 28 percent in the two states.

As in Tennessee, sales of building materials rose faster in the four Mississippi retirement counties than they did in the state in general and

Table 8. Eating Out in Florida's Retirement Counties, 1972 and 1983
(in thousands of dollars)

	Food Stores		Eating and Drinking		Total		Percent of Food Dollars Spent for Dining Away from Home	
	1972	1983	1972	1983	1972	1983	1972	1983
Pasco	47,800	237,504	9,445	95,158	57,245	332,662	16.5	28.6
Citrus	15,602	78,479	2,922	27,717	18,524	106,196	15.8	52.2
Charlotte	20,807	89,979	5,246	40,789	26,053	103,768	20.1	31.2
Hernando	11,223	55,507	1,991	17,101	13,214	72,608	15.1	23.6
Highlands	17,433	71,443	3,219	23,810	20,652	95,253	15.6	25.0
Pinellas	298,752	1,134,869	132,002	647,594	430,754	1,782,463	30.6	36.3
Volusia	114,650	401,623	52,210	231,589	166,860	633,212	31.3	36.6
Sumter	6,734	24,100	2,811	13,468	9,545	37,568	29.5	35.9
Washington	5,570	16,942	707	3,685	6,277	20,627	11.3	17.9
Lake	42,199	154,246	9,175	77,552	51,374	231,789	17.9	33.5
Marion	42,006	191,121	14,970	79,969	56,976	271,090	26.3	29.5
Manatee	58,741	238,052	19,481	124,110	78,222	362,162	24.9	34.3
Putnam	18,759	67,654	3,143	20,924	21,902	88,578	14.4	23.6
Sarasota	88,850	348,617	29,813	215,776	118,663	564,393	25.1	38.2
Liberty	1,138	3,976	(D)	519	(D)	4,495	(D)	11.6
Lee	73,551	366,272	22,721	191,373	96,272	557,645	23.6	34.3
Osceola	16,906	85,057	4,865	62,597	21,771	147,654	22.4	42.4
Okeechobee	8,703	37,945	2,893	13,904	11,596	51,849	24.9	26.8
Total Counties	889,424	3,603,386	317,614	1,887,635	1,205,900	5,464,012	26.3	34.5
State Total	4,011,173	14,607,751	1,575,219	8,161,943	5,586,392	22,769,694	28.2	35.8

Source: **1972 Census of Retail Trade: Area Statistics** and untabulated sales by vendor from the Florida Department of Revenue.
D = Disclosure Unavailable.

specialty retail merchants also relinquished sales to general merchandise stores. General merchandise stores in our group of retirement counties witnessed a 31 percent annual increase in sales compared with 19 percent for the state as a whole. The fact that building material sales increased disproportionately in these four Mississippi counties suggests that much of their new construction was for remodeling or perhaps public housing. Indeed, home furnishings sold less actively in these counties than in the rest of the state.

Surveying experts in the retirement counties, we found many communities already undertaking creative marketing efforts to meet the needs of the elderly. One area of innovation merchants have discovered—or perhaps rediscovered—is home delivery of all sorts of services. For example, retirees in Pasco County, Florida, can obtain laundry pickup and delivery, grocery delivery, hot meals, hair dressing, barbering, house cleaning, newspapers, magazines, and books, and other

personal services in their homes. Health services are also available in Pasco County's other communities by home delivery. Restaurants provide another marketing opportunity in retirement counties.

Patterns of food and drink consumption in each of Florida's 20 retirement counties suggest that senior citizens are dining out much more often. The economic impact of that trend is shown in Citrus County, where restaurants' and bars' share of total food and drink sales increased from 16 percent in 1972 to 52 percent in 1983 (see Table 8).

Many more opportunities for expansion require, as a first step, recognition that home delivery of health services is not just for "old people on welfare." The vast majority of retirees are well above the poverty line and many need and would benefit from home delivery of more paramedical services.

We also found mass communications being used creatively to enhance retail shopping by

BOX 1 PENSION INCOME IN THE CAROLINAS

Not all locations within the region have shared equally from the influx of retirement income. In our previous article, we identified 120 counties in the six-state Southeast where retirement income tended to be of greater relative importance than in the nation or the region. Those counties tended to be clustered near military bases, universities, large lakes, in the mountains of eastern Tennessee and northern Georgia, and in rural areas.

Expanding the geographic focus of our previous study to the Carolinas further confirms the general findings of our analysis. Retirees were indeed attracted to those communities that include such features as lakes, mountains, universities, and military bases. The Fort Bragg Military Reservation in Fayetteville, North Carolina and the nearby World's Golf Hall of Fame are primarily responsible for the influx of retirees to neighboring Moore County and, to a lesser degree, to Richmond County. The population of Moore, historically a rural county, rose almost 30 percent in the last 10 years and retirement income increased 66 percent faster than the growth of personal income. In 1970, only \$74 of each \$1,000 in personal income consisted of public retirement money. By 1980, this source was responsible for \$123 per \$1,000 of personal income. While the proportion of retirement income grew slightly less in Richmond County, retirement income exceeded other income growth by 46 percent because the population there increased only 18 percent.

Richmond apparently was gaining fewer retirees from Fort Bragg than was Moore County; nearly 19 percent of public retirement income in Moore County came from the military, compared with only 6.4 percent in Richmond County.

North Carolina enjoys a locational advantage over other states in attracting retirees. To the east, the state is gifted with the Outer Banks, and to the west are perhaps the most beautiful mountain areas east of the Mississippi. We found Clay and Cherokee counties, on the western North Carolina border, to have the highest share of personal income from retirement—\$169 per \$1,000 of personal income—of North Carolina's 100 counties. Clay County's population grew by 35 percent over the last decade, more than twice the 17 percent growth rate for the state. People 60 years of age and over made up 15 percent of net immigration into Clay County in the last decade. Retirement income rose 75 percent faster than other income sources, making Clay County the fastest-growing retirement community in North Carolina. Other western counties that experienced marked increases in retirement income were Swain, Yancey, Avery, and Alleghany, all located along the scenic Blue Ridge Parkway. Retirees also have been locating along the eastern shoreline.

Northampton and Halifax Counties (just across from Virginia) have the advantage of being located

along Interstate 95, a route many northerners travel to Florida. Second, both counties contain frontage on Lake Gaston, a large recreational lake formed from an inlet of the John Kerr Reservoir in Virginia.

South Carolina's highest concentration of retirement income is in McCormick County, on the Savannah River between Anderson, South Carolina, and Augusta, Georgia. It is also in the heart of the Sumter National Forest; in fact, many of the counties with a high concentration of retirement income are in or near scenic areas. The long shoreline along the Savannah River attracts many retirees. Homes, golf courses, marinas, restaurants, and shopping facilities are under construction all along the riverfront. Easy access to Atlanta via Interstate 20 also enhances the area's attractiveness.

Clarendon County, between Columbia and Charleston, South Carolina, is yet another county with an important settlement of retirees. Clarendon County, part of the Santee-Cooper resort area, has a large real estate development just east of Interstate 95. Lake Marion, with more than 160 acres, is nearly four times as large as Lake Lanier near Atlanta. Retirement villages with views overlooking either the lake or one of two 18-hole golf courses attract Florida travelers along I-95. In 1970, public retirement income represented only \$66 per \$1,000 of personal income. The development and promotional efforts of the Santee-Cooper area propelled the proportion to \$122 per \$1,000 by 1980.

Orangeburg County, west of Clarendon County, also has frontage on Lake Marion. It too has witnessed a sharp increase in retirement income. Indeed, income from public retirement rose 60 percent faster than did income from other sources over the last decade. Sumter County also experienced a sharp increase in retirement income due to an inflow of military retirees from the Fort Jackson Military Reservation in nearby Columbia. Nearly a third of all retirement income in Sumter County derives from payments to retired military personnel, compared with 15 percent for the state of South Carolina.

On the coast, Charleston, with a concentration of military facilities, has a significant percentage of income from retirement. The \$104 per \$1,000 of personal income in 1980 was 65 percent greater than the \$63 per thousand of personal income 10 years earlier. Indeed, the \$55 million in military retirement payments represents 23 percent of the \$234 million from all public retirement income programs flowing into the coastal county.

Other South Carolina coastal counties important to retirees are Horry (Myrtle Beach), Georgetown, Colleton, and Jasper. Oceanfront retirement homes are being constructed from North Carolina to the Georgia line. Oconee County, in the western tip of the state in the foothills of the Great Smoky Mountain Park, also ranks high in retirement income.

elderly whose mobility is constrained. For example, a radio station in Stewart County, Tennessee, sponsors regular morning programming whereby listeners, primarily elderly, call to offer goods and services or to solicit them from other listeners. A local firm has been established to transport traded items. A retirement development called Bradford Village in Santee, South Carolina, provides an on-site shopping mall, a modern medical facility linked to the home through an electronic hook-up, and organized recreational activities.

We found housing developments for retirees in many of these counties to be much more than just "old folk homes." Many communities have condominium developments that incorporate most essential basic services. One such development is located in Winter Haven, Florida. It includes a condominium-apartment complex, a grocery store, a barber/beauty shop, florist-card-sundry shops, a pharmacy, a cafeteria, and a chapel. On the other side is a medical facility, a recreation center, and a management office providing assistance with a wide range of personal and financial needs.

Conclusion

Older Americans now control over 17 percent of the nation's discretionary income, and much of that income is flowing into the Southeast as retirees seek the region's sunshine and recreational opportunities. Some local communities, particularly those near lakes, military bases, universities, beaches and mountains, are benefiting most from the wave of incoming dollars. That trend, which is expected to continue, should transform the economic structure of many of these local communities. Nondurable goods and services will become major factors in these local economies, with food, travel, recreation, entertainment and medical care leading the way.

More important, since retirement income is less sensitive to business cycles than other income, the influx of retirees could reduce the entire region's sensitivity to such cycles in the future.

—Charlie Carter

NOTES

¹"Public Retirement System: Crucial to the Southeastern Economy?" **Economic Review**, Federal Reserve Bank of Atlanta, July 1983.

²The six states all or partially included in the Sixth Federal Reserve District—Alabama, Florida, Georgia, Louisiana, Mississippi and Tennessee—plus North Carolina and South Carolina. Where possible, this article discusses the eight state region.

³Some might argue that our analysis is limited by focusing on families with household heads 65 and over because such families represent only a small fraction of those over 65. But our analysis of Census data rebuts this accusation. In 1980, more than 46 percent of Georgia's residents over 65 lived in married-couple families with householders over 65. When those 65-plus householders in families where no spouse was present are included, the share of Georgia's over-65 residents living in families rises to 58 percent. So our analysis covers over half of Georgia's elderly.



FINANCE

STATISTICAL SUPPLEMENT

	MAR 1984	FEB 1984	MAR 1983	ANN. % CHG.		MAR 1984	FEB 1984	MAR 1983	ANN. % CHG.
\$ millions									
UNITED STATES									
Commercial Bank Deposits	1,333,868	1,326,657	1,240,595	+ 8	Savings & Loans**				
Demand	302,556	299,371	291,377	+ 4	Total Deposits	643,174	637,308	579,199	+11
NOW	88,815	87,544	72,737	+22	NOW	19,092	18,669	16,053	+19
Savings	356,733	352,739	304,431	+17	Savings	174,626	173,594	174,957	- 0
Time	622,999	619,272	603,360	+ 3	Time	453,085	448,738	391,195	+16
Credit Union Deposits	50,194	49,687	48,480	+ 4		FEB	JAN	FEB	
Share Drafts	5,249	5,120	4,584	+15	Mortgages Outstanding	487,561	483,845	472,529	+ 3
Savings & Time	44,962	44,492	43,471	+ 3	Mortgage Commitments	29,513	27,524	17,512	+69
SOUTHEAST									
Commercial Bank Deposits	153,046	151,756	138,502	+11	Savings & Loans				
Demand	36,148	35,799	34,446	+ 5	Total Deposits	N.A.	N.A.	N.A.	
NOW	11,645	11,416	9,685	+20	NOW	N.A.	N.A.	N.A.	
Savings	40,340	39,730	33,342	+21	Savings	N.A.	N.A.	N.A.	
Time	69,155	68,513	64,198	+ 8	Time	N.A.	N.A.	N.A.	
Credit Union Deposits	5,816	5,749	5,058	+15		FEB	JAN	FEB	
Share Drafts	515	494	372	+38	Mortgages Outstanding	68,776	68,616	67,477	+ 2
Savings & Time	5,200	5,137	4,303	+21	Mortgage Commitments	4,631	4,344	3,088	+50
ALABAMA									
Commercial Bank Deposits	15,922	15,798	14,740	+ 8	Savings & Loans**				
Demand	3,770	3,741	3,516	+ 7	Total Deposits	5,304	5,280	4,592	+16
NOW	1,047	1,031	3,516	-70	NOW	154	150	136	+13
Savings	3,264	3,222	2,816	+16	Savings	906	896	756	+20
Time	8,416	8,305	7,986	+ 5	Time	4,292	4,278	3,786	+13
Credit Union Deposits	928	922	855	+ 9		FEB	JAN	FEB	
Share Drafts	91	88	71	+28	Mortgages Outstanding	3,945	3,894	3,715	+ 6
Savings & Time	810	797	729	+11	Mortgage Commitments	235	253	78	+201
FLORIDA									
Commercial Bank Deposits	54,443	53,777	47,796	+14	Savings & Loans**				
Demand	13,063	12,941	12,487	+ 5	Total Deposits	55,140	54,615	51,160	+ 8
NOW	4,850	4,764	4,116	+18	NOW	2,210	2,165	1,881	+17
Savings	19,007	18,685	14,954	+27	Savings	15,102	14,974	15,416	- 2
Time	18,733	18,609	17,190	+ 9	Time	38,003	37,943	34,259	+11
Credit Union Deposits	2,525	2,498	2,285	+11		FEB	JAN	FEB	
Share Drafts	238	248	198	+20	Mortgages Outstanding	40,599	40,612	39,923	+ 2
Savings & Time	2,144	2,121	1,804	+19	Mortgage Commitments	3,098	2,917	2,307	+34
GEORGIA									
Commercial Bank Deposits	22,504	22,201	19,564	+15	Savings & Loans				
Demand	6,940	6,739	6,178	+12	Total Deposits	N.A.	N.A.	N.A.	
NOW	1,523	1,493	1,275	+19	NOW	N.A.	N.A.	N.A.	
Savings	5,090	4,964	4,304	+18	Savings	N.A.	N.A.	N.A.	
Time	10,168	10,044	8,714	+17	Time	N.A.	N.A.	N.A.	
Credit Union Deposits	1,219	1,201	962	+27		FEB	JAN	FEB	
Share Drafts	79	74	39	+103	Mortgages Outstanding	8,389	8,342	8,813	- 5
Savings & Time	1,161	1,150	861	+35	Mortgage Commitments	485	415	209	+132
LOUISIANA									
Commercial Bank Deposits	25,577	25,572	24,201	+ 6	Savings & Loans**				
Demand	5,706	5,777	5,835	- 2	Total Deposits	9,241	9,150	8,681	+ 6
NOW	1,530	1,499	1,295	+18	NOW	211	210	179	+18
Savings	5,497	5,451	4,495	+22	Savings	2,378	2,370	2,174	+ 9
Time	13,427	13,335	13,077	+ 3	Time	6,758	6,669	6,402	+ 6
Credit Union Deposits	206	203	163	+26		FEB	JAN	FEB	
Share Drafts	24	23	13	+85	Mortgages Outstanding	8,353	8,325	7,690	+ 9
Savings & Time	199	197	154	+29	Mortgage Commitments	523	514	309	+69
MISSISSIPPI									
Commercial Bank Deposits	12,012	11,923	11,147	+ 8	Savings & Loans**				
Demand	2,396	2,419	2,322	+ 3	Total Deposits	2,590	2,503	2,525	+ 3
NOW	843	841	757	+11	NOW	106	101	69	+54
Savings	2,499	2,480	2,027	+23	Savings	491	484	485	1
Time	6,610	6,506	6,302	+ 5	Time	1,938	1,964	1,999	- 3
Credit Union Deposits	*	*	*			FEB	JAN	FEB	
Share Drafts	*	*	*		Mortgages Outstanding	2,078	2,037	2,049	+ 1
Savings & Time	*	*	*		Mortgage Commitments	63	62	32	+97
TENNESSEE									
Commercial Bank Deposits	22,588	22,485	21,049	+ 7	Savings & Loans**				
Demand	4,273	4,182	4,108	+ 4	Total Deposits	6,878	6,817	6,858	+ 0
NOW	1,852	1,788	1,367	+35	NOW	183	176	173	+ 6
Savings	4,983	4,928	4,746	+51	Savings	1,351	1,337	1,511	-11
Time	11,801	11,714	10,929	+ 8	Time	5,392	5,350	5,200	+ 4
Credit Union Deposits	938	925	793	+18		FEB	JAN	FEB	
Share Drafts	63	61	51	+24	Mortgages Outstanding	5,412	5,406	5,287	+ 2
Savings & Time	886	872	755	+17	Mortgage Commitments	227	183	153	+48

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, while the call report does not. Savings and loan mortgage data are from the Federal Home Loan Bank Board Selected Balance Sheet Data. The Southeast data represent the total of the six states. Subcategories were chosen on a selective basis and do not add to total.

* = fewer than four institutions reporting.

** = S&L deposits subject to revisions due to reporting changes.

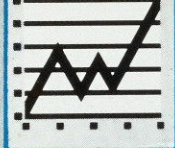
N.A. = not available at this time.



CONSTRUCTION

	MAR 1984	FEB 1984	MAR 1983	ANN % CHG		MAR 1984	FEB 1984	MAR 1983	ANN % CHG
12-month Cumulative Rate									
UNITED STATES									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	54,170	53,121	44,533	+ 22	Value - \$ Mil.	72,084	70,984	45,373	+ 59
Industrial Bldgs.	6,017	5,648	4,783	+ 26	Residential Permits - Thous.				
Offices	13,600	13,243	11,255	+ 21	Single-family units	924.8	918.1	620.5	+ 49
Stores	7,874	7,480	5,186	+ 52	Multi-family units	735.8	730.4	500.2	+ 47
Hospitals	1,957	2,099	1,778	+ 10	Total Building Permits				
Schools	818	848	812	+ 1	Value - \$ Mil.	126,254	124,104	89,907	+ 40
SOUTHEAST									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	8,586	8,343	6,582	+ 30	Value - \$ Mil.	13,530	13,358	8,056	+ 68
Industrial Bldgs.	711	686	634	+ 12	Residential Permits - Thous.				
Offices	2,107	2,029	1,444	+ 46	Single-family units	190.0	188.7	128.7	+ 48
Stores	1,541	1,443	962	+ 60	Multi-family units	173.9	170.8	96.1	+ 81
Hospitals	489	469	377	+ 30	Total Building Permits				
Schools	131	163	136	- 4	Value - \$ Mil.	22,043	21,627	14,638	+ 51
ALABAMA									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	578	562	377	+ 53	Value - \$ Mil.	453	454	274	+ 65
Industrial Bldgs.	42	39	40	+ 5	Residential Permits - Thous.				
Offices	70	66	73	- 4	Single-family units	8.0	8.1	5.9	+ 36
Stores	110	109	67	+ 64	Multi-family units	8.7	8.5	4.3	+102
Hospitals	6	5	30	- 80	Total Building Permits				
Schools	9	9	5	+ 80	Value - \$ Mil.	1,030	1,015	651	+ 58
FLORIDA									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	4,243	4,161	3,398	+ 25	Value - \$ Mil.	7,858	7,766	4,678	+ 68
Industrial Bldgs.	384	363	354	+ 8	Residential Permits - Thous.				
Offices	975	965	718	+ 36	Single-family units	102.8	101.7	66.6	+ 54
Stores	865	798	549	+ 58	Multi-family units	96.1	94.1	57.0	+ 69
Hospitals	270	290	210	+ 29	Total Building Permits				
Schools	31	63	54	- 43	Value - \$ Mil.	12,101	11,927	8,076	+ 50
GEORGIA									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	1,499	1,396	983	+ 52	Value - \$ Mil.	2,602	2,540	1,586	+ 64
Industrial Bldgs.	175	177	127	+ 38	Residential Permits - Thous.				
Offices	514	451	229	+124	Single-family units	43.6	43.0	30.0	+ 45
Stores	191	184	84	+127	Multi-family units	26.4	26.1	15.0	+ 76
Hospitals	55	36	25	+120	Total Building Permits				
Schools	32	31	10	+220	Value - \$ Mil.	4,101	3,936	2,569	+ 60
LOUISIANA									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	1,164	1,153	1,064	+ 9	Value - \$ Mil.	1,150	1,157	758	+ 52
Industrial Bldgs.	31	33	61	- 49	Residential Permits - Thous.				
Offices	364	375	316	+ 15	Single-family units	16.7	16.9	12.9	+ 29
Stores	156	133	122	+ 28	Multi-family units	18.1	18.3	10.1	+ 79
Hospitals	119	95	60	+ 98	Total Building Permits				
Schools	49	51	53	- 8	Value - \$ Mil.	2,314	2,310	1,822	+ 27
MISSISSIPPI									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	217	206	169	+ 28	Value - \$ Mil.	333	328	208	+ 60
Industrial Bldgs.	11	10	11	0	Residential Permits - Thous.				
Offices	21	23	16	+ 31	Single-family units	4.9	4.9	3.9	+ 26
Stores	50	48	40	+ 25	Multi-family units	5.4	5.2	2.5	+116
Hospitals	15	19	10	+ 50	Total Building Permits				
Schools	4	4	5	- 20	Value - \$ Mil.	550	534	377	+ 46
TENNESSEE									
Nonresidential Building Permits - \$ Mil.					Residential Building Permits				
Total Nonresidential	885	865	591	+ 50	Value - \$ Mil.	1,134	1,113	552	+105
Industrial Bldgs.	68	64	41	+ 66	Residential Permits - Thous.				
Offices	163	149	92	+ 77	Single-family units	14.0	14.1	9.4	+ 49
Stores	169	171	100	+ 69	Multi-family units	19.2	18.6	7.2	+167
Hospitals	24	24	42	- 43	Total Building Permits				
Schools	6	5	9	- 33	Value - \$ Mil.	1,947	1,905	1,143	+ 70

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.		APR 1984	MAR (R) 1984	APR 1983	ANN. % CHG.
UNITED STATES										
Personal Income (\$bil. - SAAR)	4Q	2,824.2	2,752.5	2,257.5	+25	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)	146	145	136	+ 7
Petroleum Prod. (thous.)	APR	8,756.6	8,556.7r	8,717.0	+ 0	Broiler Placements (thous.)	86,600	84,498	84,992	+ 2
Consumer Price Index						Calf Prices (\$ per cwt.)	63.60	63.70	66.60	- 5
1967=100	APR	308.8	307.3	295.5	+ 5	Broiler Prices (\$ per lb.)	34.8	37.8	24.7	+41
Kilowatt Hours - mils.	JAN	206.5	185.4	178.7	+16	Soybean Prices (\$ per bu.)	7.65	7.68	6.08	+26
						Broiler Feed Cost (\$ per ton)	246	242	215	+14
SOUTHEAST										
Personal Income (\$bil. - SAAR)	4Q	341.9	333.9	310.0	+10	Agriculture				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		Prices Rec'd by Farmers				
Plane Pass. Arr. 000's	MAR	5,125.2	4,167.9	5,270.4	- 3	Index (1977=100)	137	139	121	+13
Petroleum Prod. (thous.)	APR	1,488.0	1,483.0	1,385.0	+ 7	Broiler Placements (thous.)	33,222	32,345	32,818	+ 1
Consumer Price Index						Calf Prices (\$ per cwt.)	58.67	59.64	63.79	- 8
1967=100		N.A.	N.A.	N.A.		Broiler Prices (\$ per lb.)	34.0	36.9	24.1	+41
Kilowatt Hours - mils.	JAN	32.7	27.8	28.0	+17	Soybean Prices (\$ per bu.)	7.87	7.89	6.26	+26
						Broiler Feed Cost (\$ per ton)	234	228	201	+16
ALABAMA										
Personal Income (\$bil. - SAAR)	4Q	37.7	37.1	34.9	+ 8	Agriculture				
Taxable Sales - \$ bil.	DEC	30.2	29.6	28.4	+ 6	Farm Cash Receipts - \$ mil.				
Plane Pass. Arr. 000's	MAR	118.8	103.2	117.8	+ 1	(Dates: FEB, FEB)	282	-	268	+ 5
Petroleum Prod. (thous.)	APR	52.0	51.0	53.0	- 2	Broiler Placements (thous.)	11,313	11,010	10,916	+ 4
Consumer Price Index						Calf Prices (\$ per cwt.)	57.80	58.30	60.70	- 5
1967=100		N.A.	N.A.	N.A.		Broiler Prices (\$ per lb.)	33.0	36.5	23.5	+40
Kilowatt Hours - mils.	JAN	4.4	3.7	3.7	+19	Soybean Prices (\$ per bu.)	7.80	7.85	6.15	+27
						Broiler Feed Cost (\$ per ton)	270	270	210	+29
FLORIDA										
Personal Income (\$bil. - SAAR)	4Q	128.8	125.4	117.7	+ 9	Agriculture				
Taxable Sales - \$ bil.	APR	77.0	76.1	68.4	+13	Farm Cash Receipts - \$ mil.				
Plane Pass. Arr. 000's	MAR	2,720.8	2,218.9	2,815.2	- 4	(Dates: FEB, FEB)	751	-	985	-24
Petroleum Prod. (thous.)	APR	47.0	49.0	59.0	-20	Broiler Placements (thous.)	1,995	1,977	2,040	- 2
Consumer Price Index - Miami						Calf Prices (\$ per cwt.)	64.50	63.60	70.10	- 8
Nov. 1977 = 100		165.6	165.0	159.0	+ 4	Broiler Prices (\$ per lb.)	34.0	37.0	24.0	+42
Kilowatt Hours - mils.	JAN	8.8	7.3	7.5	+17	Soybean Prices (\$ per bu.)	7.80	7.85	6.15	+27
						Broiler Feed Cost (\$ per ton)	280	255	225	+24
GEORGIA										
Personal Income (\$bil. - SAAR)	4Q	61.0	59.6	55.8	+ 9	Agriculture				
Taxable Sales - \$ bil.	4Q	43.2	41.1	40.6	+ 6	Farm Cash Receipts - \$ mil.				
Plane Pass. Arr. 000's	MAR	1,793.6	1,443.1	1,846.8	- 3	(Dates: FEB, FEB)	420	-	404	+ 4
Petroleum Prod. (thous.)		N.A.	N.A.	N.A.		Broiler Placements (thous.)	13,268	12,912	13,009	+ 2
Consumer Price Index - Atlanta						Calf Prices (\$ per cwt.)	52.90	54.60	59.10	-10
1967 = 100	APR	311.1	309.3	297.6	+ 5	Broiler Prices (\$ per lb.)	34.0	36.5	24.0	+42
Kilowatt Hours - mils.	JAN	5.0	4.6	4.7	+ 6	Soybean Prices (\$ per bu.)	7.65	7.63	6.17	+24
						Broiler Feed Cost (\$ per ton)	215	205	197	+ 9
LOUISIANA										
Personal Income (\$bil. - SAAR)	4Q	47.3	46.4	44.6	+ 6	Agriculture				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		Farm Cash Receipts - \$ mil.				
Plane Pass. Arr. 000's	MAR	294.6	241.3	292.2	+ 0	(Dates: FEB, FEB)	292	-	294	- 1
Petroleum Prod. (thous.)	APR	1,300.0	1,295.0r	1,189.0	+ 9	Broiler Placements (thous.)	N.A.	N.A.	N.A.	
Consumer Price Index						Calf Prices (\$ per cwt.)	60.60	62.40	63.90	- 5
1967 = 100		N.A.	N.A.	N.A.		Broiler Prices (\$ per lb.)	35.0	38.5	24.5	+43
Kilowatt Hours - mils.	JAN	4.9	4.2	4.4	+11	Soybean Prices (\$ per bu.)	7.94	7.99	6.32	+26
						Broiler Feed Cost (\$ per ton)	285	285	260	+10
MISSISSIPPI										
Personal Income (\$bil. - SAAR)	4Q	21.8	21.1	20.3	+ 7	Agriculture				
Taxable Sales - \$ bil.		N.A.	N.A.	N.A.		Farm Cash Receipts - \$ mil.				
Plane Pass. Arr. 000's	MAR	35.3	29.3	37.6	- 6	(Dates: FEB, FEB)	291	-	366	-20
Petroleum Prod. (thous.)	APR	89.0	88.0	84.0	+ 6	Broiler Placements (thous.)	6,647	6,446	6,865	- 3
Consumer Price Index						Calf Prices (\$ per cwt.)	59.00	60.90	63.80	- 8
1967 = 100		N.A.	N.A.	N.A.		Broiler Prices (\$ per lb.)	35.5	38.0	25.5	+39
Kilowatt Hours - mils.	JAN	2.2	1.9	1.8	+22	Soybean Prices (\$ per bu.)	7.81	7.86	6.29	+24
						Broiler Feed Cost (\$ per ton)	190	187	175	+ 9
TENNESSEE										
Personal Income (\$bil. - SAAR)	4Q	45.3	44.3	36.7	+23	Agriculture				
Taxable Sales - \$ bil.	MAR	41.9	39.0	38.2	+ 9	Farm Cash Receipts - \$ mil.				
Plane Pass. Arr. 000's	MAR	162.1	132.1	160.8	+ 1	(Dates: FEB, FEB)	263	-	317	-17
Petroleum Prod. (thous.)		N.A.	N.A.	N.A.		Broiler Placements (thous.)	N.A.	N.A.	N.A.	
Consumer Price Index						Calf Prices (\$ per cwt.)	56.60	57.70	63.70	-11
1967 = 100		N.A.	N.A.	N.A.		Broiler Prices (\$ per lb.)	34.0	36.0	23.5	+45
Kilowatt Hours - mils.	JAN	7.4	6.1	5.9	+25	Soybean Prices (\$ per bu.)	8.07	8.00	6.31	+28
						Broiler Feed Cost (\$ per ton)	225	215	198	+14

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

	MAR 1984	FEB 1984	MAR 1983	ANN. % CHG.		MAR 1984	FEB 1984	MAR 1983	ANN. % CHG.
UNITED STATES									
Civilian Labor Force - thous.	111,828	111,368	109,873	+ 2	Nonfarm Employment- thous.	91,788	91,133	88,172	+ 4
Total Employed - thous.	102,770	101,961	97,994	+ 5	Manufacturing	19,450	19,307	18,166	+ 7
Total Unemployed - thous.	9,057	9,407	11,879	-24	Construction	3,835	3,767	3,453	+11
Unemployment Rate - % SA	7.8	7.8	10.3		Trade	20,535	20,441	19,955	+ 3
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	16,089	16,022	16,051	+ 0
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	20,284	20,039	19,279	+ 5
Mfg. Avg. Wkly. Hours	40.6	40.7	39.6	+ 3	Fin., Ins., & Real Est.	5,538	5,521	5,359	+ 3
Mfg. Avg. Wkly. Earn. - \$	370	370	346	+ 7	Trans. Com. & Pub. Util.	5,013	4,996	4,913	+ 2
SOUTHEAST									
Civilian Labor Force - thous.	14,569	14,548	14,099	+ 3	Nonfarm Employment- thous.	11,925	11,852	11,378	+ 5
Total Employed - thous.	13,436	13,313	12,534	+ 7	Manufacturing	2,242	2,232	2,108	+ 6
Total Unemployed - thous.	1,132	1,235	1,565	-28	Construction	698	686	609	+15
Unemployment Rate - % SA	7.6	8.0	11.0		Trade	2,879	2,861	2,706	+ 6
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	2,191	2,186	2,184	+ 0
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	2,408	2,388	2,305	+ 4
Mfg. Avg. Wkly. Hours	41.1	41.1	39.8	+ 3	Fin., Ins., & Real Est.	687	684	651	+ 6
Mfg. Avg. Wkly. Earn. - \$	325	325	302	+ 8	Trans. Com. & Pub. Util.	691	687	686	+ 1
ALABAMA									
Civilian Labor Force - thous.	1,764	1,760	1,752	+ 1	Nonfarm Employment- thous.	1,334	1,330	1,294	+ 3
Total Employed - thous.	1,549	1,532	1,477	+ 5	Manufacturing	347	345	330	+ 5
Total Unemployed - thous.	216	228	275	-21	Construction	61	61	54	+13
Unemployment Rate - % SA	11.7	12.4	15.2		Trade	274	273	263	+ 4
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	287	288	291	- 1
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	219	218	215	+ 2
Mfg. Avg. Wkly. Hours	40.8	40.9	39.9	+ 2	Fin., Ins., & Real Est.	60	60	59	+ 2
Mfg. Avg. Wkly. Earn. - \$	318	320	302	+ 5	Trans. Com. & Pub. Util.	72	72	69	+ 4
FLORIDA									
Civilian Labor Force - thous.	4,980	4,991	4,611	+ 8	Nonfarm Employment- thous.	4,110	4,086	3,856	+ 7
Total Employed - thous.	4,713	4,685	4,202	+12	Manufacturing	494	493	452	+ 9
Total Unemployed - thous.	267	306	409	-35	Construction	296	294	247	+20
Unemployment Rate - % SA	5.5	6.0	8.9		Trade	1,111	1,106	1,025	+ 8
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	653	647	648	+ 1
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	1,013	1,005	964	+ 5
Mfg. Avg. Wkly. Hours	41.3	41.6	40.1	+ 3	Fin., Ins., & Real Est.	303	302	279	+ 9
Mfg. Avg. Wkly. Earn. - \$	311	314	291	+ 7	Trans. Com. & Pub. Util.	229	228	232	- 1
GEORGIA									
Civilian Labor Force - thous.	2,712	2,683	2,653	+ 2	Nonfarm Employment- thous.	2,343	2,318	2,219	+ 6
Total Employed - thous.	2,543	2,505	2,431	+ 5	Manufacturing	524	522	497	+ 5
Total Unemployed - thous.	169	178	222	-24	Construction	122	116	100	+22
Unemployment Rate - % SA	6.1	5.9	8.3		Trade	564	557	526	+ 7
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	440	440	442	- 0
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	410	403	385	+ 6
Mfg. Avg. Wkly. Hours	41.3	40.9	40.3	+ 2	Fin., Ins., & Real Est.	124	123	119	+ 4
Mfg. Avg. Wkly. Earn. - \$	309	302	287	+ 8	Trans. Com. & Pub. Util.	151	150	145	+ 4
LOUISIANA									
Civilian Labor Force - thous.	1,896	1,896	1,897	- 0	Nonfarm Employment- thous.	1,567	1,562	1,552	+ 1
Total Employed - thous.	1,723	1,704	1,657	+ 4	Manufacturing	177	176	179	- 1
Total Unemployed - thous.	173	192	240	+71	Construction	114	112	111	+ 3
Unemployment Rate - % SA	9.1	10.1	12.7		Trade	369	368	356	+ 4
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	320	320	319	+ 0
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	311	309	303	+ 3
Mfg. Avg. Wkly. Hours	41.8	41.7	39.6	+ 6	Fin., Ins., & Real Est.	84	83	81	+ 4
Mfg. Avg. Wkly. Earn. - \$	419	421	384	+ 9	Trans. Com. & Pub. Util.	113	114	120	- 6
MISSISSIPPI									
Civilian Labor Force - thous.	1,028	1,022	1,069	- 4	Nonfarm Employment- thous.	799	795	776	+ 3
Total Employed - thous.	921	910	916	+ 1	Manufacturing	210	210	195	+ 8
Total Unemployed - thous.	106	112	153	-31	Construction	32	32	34	- 6
Unemployment Rate - % SA	9.8	10.1	13.6	-28	Trade	166	164	159	+ 4
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	183	184	183	0
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	127	126	123	+ 3
Mfg. Avg. Wkly. Hours	40.4	40.7	39.2	+ 3	Fin., Ins., & Real Est.	34	34	33	+ 3
Mfg. Avg. Wkly. Earn. - \$	281	281	258	+ 9	Trans. Com. & Pub. Util.	38	38	38	0
TENNESSEE									
Civilian Labor Force - thous.	2,189	2,196	2,117	+ 3	Nonfarm Employment- thous.	1,772	1,761	1,681	+ 5
Total Employed - thous.	1,987	1,977	1,851	+ 7	Manufacturing	490	486	455	+ 8
Total Unemployed - thous.	201	219	266	-25	Construction	73	71	63	+16
Unemployment Rate - % SA	8.4	8.7	12.6		Trade	395	393	377	+ 4
Insured Unemployment - thous.	N.A.	N.A.	N.A.		Government	308	307	301	+ 2
Insured Unempl. Rate - %	N.A.	N.A.	N.A.		Services	328	327	315	+ 4
Mfg. Avg. Wkly. Hours	40.9	40.6	39.6	+ 3	Fin., Ins., & Real Est.	82	82	80	+ 3
Mfg. Avg. Wkly. Earn. - \$	313	311	292	+ 7	Trans. Com. & Pub. Util.	88	85	82	+ 7

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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