

1968

annual statement



federal reserve bank of dallas

This publication was digitized and made available by the Federal Reserve Bank of Dallas' Historical Library (FedHistory@dal.frb.org)

FEDERAL RESERVE BANK OF DALLAS

To the Member Banks in the
Eleventh Federal Reserve District:

The Statement of Condition and the earnings and expenses of the Federal Reserve Bank of Dallas for the year 1968, with comparative figures for 1967, are shown herein. Lists of the directors and officers of the Bank and its branches as of January 1, 1969, are also included.

A review of economic and financial developments in the Nation and the District during 1968 is being presented in the January 1969 Annual Report Issue of the *Business Review* of this Bank.

Additional copies of these publications may be obtained upon request to the Research Department, Federal Reserve Bank of Dallas, 400 South Akard Street (mailing address: Station K, Dallas, Texas 75222).

Sincerely yours,

A handwritten signature in black ink, appearing to read "P. E. Coldwell", written in a cursive style.

P. E. COLDWELL
President

statement of condition

	Dec. 31, 1968	Dec. 31, 1967
ASSETS		
Gold certificate account	\$ 344,103,657	\$ 318,182,506
Redemption fund for Federal Reserve notes	—	70,247,329
Total gold certificate reserves	344,103,657	388,429,835
Federal Reserve notes of other Banks	43,242,700	30,530,500
Other cash	11,513,277	13,676,797
Discounts and advances	5,300,000	5,800,000
U.S. Government securities:		
Bills	798,246,000	667,810,000
Certificates	—	—
Notes	1,221,704,000	1,125,269,000
Bonds	232,989,000	254,434,000
Total U.S. Government securities	2,252,939,000	2,047,513,000
Total loans and securities	2,258,239,000	2,053,313,000
Cash items in process of collection	577,047,041	626,215,095
Bank premises	8,664,214	9,037,370
Other assets	137,692,922	106,066,517
TOTAL ASSETS	<u>\$3,380,502,811</u>	<u>\$3,227,269,114</u>
LIABILITIES		
Federal Reserve notes in actual circulation	\$1,575,001,366	\$1,432,827,205
Deposits:		
Member bank — reserve accounts	1,229,448,111	1,149,734,038
U.S. Treasurer — general account	572,920	61,322,616
Foreign	12,540,000	8,120,000
Other	10,624,865	9,182,179
Total deposits	1,253,185,896	1,228,358,833
Deferred availability cash items	464,327,688	485,310,241
Other liabilities	16,456,361	11,845,535
TOTAL LIABILITIES	<u>3,308,971,311</u>	<u>3,158,341,814</u>
CAPITAL ACCOUNTS		
Capital paid in	35,765,750	34,463,650
Surplus	35,765,750	34,463,650
TOTAL CAPITAL ACCOUNTS	<u>71,531,500</u>	<u>68,927,300</u>
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	<u>\$3,380,502,811</u>	<u>\$3,227,269,114</u>

earnings and expenses

	1968	1967
CURRENT EARNINGS		
Discounts and advances	\$ 1,215,553	\$ 175,641
U.S. Government securities	112,264,985	88,410,349
Foreign currencies	4,364,788	1,464,582
All other	34,700	35,223
TOTAL CURRENT EARNINGS	<u>117,880,026</u>	<u>90,085,795</u>
CURRENT EXPENSES		
Current operating expenses	11,661,711	11,197,900
Assessment for expenses of Board of Governors	815,298	625,596
Federal Reserve currency:		
Original cost, including shipping charges	969,695	1,032,264
Cost of redemption, including shipping charges	15,960	29,501
Total	<u>13,462,664</u>	<u>12,885,261</u>
Less reimbursement for certain fiscal agency and other expenses	905,737	909,410
NET EXPENSES	<u>12,556,927</u>	<u>11,975,851</u>
PROFIT AND LOSS		
Current net earnings	105,323,099	78,109,944
Additions to current net earnings:		
Profit on sales of U.S. Government securities (net)	33,593	30,855
All other	461,514	83,126
Total additions	<u>495,107</u>	<u>113,981</u>
Deductions from current net earnings	13,040	5,424
Net additions	<u>482,067</u>	<u>108,557</u>
Net earnings before dividends and payments to U.S. Treasury	105,805,166	78,218,501
Dividends paid	2,118,480	2,027,223
Payments to U.S. Treasury (interest on F.R. notes)	102,384,586	74,941,628
Transferred to surplus	1,302,100	1,249,650
Surplus, January 1	34,463,650	33,214,000
Surplus, December 31	<u>\$ 35,765,750</u>	<u>\$ 34,463,650</u>

directors

FEDERAL RESERVE BANK OF DALLAS

CARL J. THOMSEN	(Chairman and Federal Reserve Agent), Senior Vice President, Texas Instruments Incorporated, Dallas, Texas
MAX LEVINE	(Deputy Chairman), Retired Chairman of the Board, Foley's, Houston, Texas
CHAS. F. JONES	President, Humble Oil & Refining Company, Houston, Texas
J. V. KELLY	President, The Peoples National Bank of Belton, Belton, Texas
MURRAY KYGER	Chairman of the Board, The First National Bank of Fort Worth, Fort Worth, Texas
CARL D. NEWTON	President, Fox-Stanley Photo Products, Inc., San Antonio, Texas
A. W. RITER, JR.	President, The Peoples National Bank of Tyler, Tyler, Texas
HUGH F. STEEN	President, El Paso Natural Gas Company, El Paso, Texas
C. A. TATUM, JR.	President and Chief Executive Officer, Texas Utilities Company, Dallas, Texas

EL PASO BRANCH

GORDON W. FOSTER	Vice President and Director, Farah Manufacturing Company, Inc., El Paso, Texas
ROBERT W. HEYER	Director and Consultant, Southern Arizona Bank & Trust Company, Tucson, Arizona
ROBERT F. LOCKHART	President, The State National Bank of El Paso, El Paso, Texas
C. ROBERT McNALLY, JR.	Rancher, Roswell, New Mexico
JOSEPH M. RAY	H. Y. Benedict Professor of Political Science, The University of Texas at El Paso, El Paso, Texas
ARCHIE B. SCOTT	President, The Security State Bank of Pecos, Texas
JOE B. SISLER	President, The Clovis National Bank, Clovis, New Mexico

HOUSTON BRANCH

R. M. BUCKLEY	President and Director, Eastex Incorporated, Silsbee, Texas
HENRY B. CLAY	President, First Bank & Trust, Bryan, Texas
A. G. McNEESE, JR.	Chairman of the Board, Bank of the Southwest National Association, Houston, Houston, Texas
GEO. T. MORSE, JR.	President and General Manager, Peden Iron & Steel Company, Houston, Texas
W. G. THORNELL	President, The First National Bank of Port Arthur, Port Arthur, Texas
JOHN E. WHITMORE	President, Texas National Bank of Commerce of Houston, Houston, Texas
M. STEELE WRIGHT, JR.	President and General Manager, Texas Farm Products Company, Nacogdoches, Texas

SAN ANTONIO BRANCH

W. A. BELCHER	Veterinarian and Rancher, Brackettville, Texas
JAMES T. DENTON, JR.	President, Corpus Christi Bank and Trust, Corpus Christi, Texas
TOM C. FROST, JR.	President, The Frost National Bank of San Antonio, San Antonio, Texas
RAY M. KECK, JR.	President, Union National Bank of Laredo, Laredo, Texas
LLOYD M. KNOWLTON	General Manager and Partner, Knowlton's Creamery, San Antonio, Texas
FRANCIS B. MAY	Professor of Business Statistics and Consulting Statistician to the Bureau of Business Research, The University of Texas, Austin, Texas
J. R. THORNTON	Chairman of the Board and President, State Bank and Trust Company, San Marcos, Texas

FEDERAL ADVISORY COUNCIL MEMBER

JOHN E. GRAY	President, First Security National Bank of Beaumont, Beaumont, Texas
--------------	--

officers

FEDERAL RESERVE BANK OF DALLAS

P. E. COLDWELL, *President*

T. W. PLANT, *First Vice President*

ROY E. BOHNE, *Senior Vice President
and Cashier*

JAMES L. CAUTHEN, *Senior Vice President
and Controller*

J. L. COOK, *Senior Vice President*

ROBERT H. BOYKIN, *Vice President
and Secretary of the Board*

LEON W. COWAN, *Vice President*

RALPH T. GREEN, *Vice President*

CARL H. MOORE, *Vice President*

JAMES A. PARKER, *Vice President*

W. M. PRITCHETT, *Vice President*

FREDRIC W. REED, *Vice President*

TONY J. SALVAGGIO, *Vice President and
Assistant Secretary of the Board*

THOMAS R. SULLIVAN, *Vice President*

E. W. VORLOP, JR., *Vice President*

ARTHUR H. LANG, *General Auditor*

GEORGE F. RUDY, *General Counsel*

HARRY E. ROBINSON, JR., *Assistant Vice President*

E. A. THAXTON, JR., *Assistant Vice President*

J. Z. ROWE, *Director of Research*

JAMES O. RUSSELL, *Chief Examiner*

T. E. SPRENG, *Data Processing Officer*

SIDNEY J. ALEXANDER, JR., *Assistant Cashier*

ROBERT A. BROWN, *Assistant Cashier*

RICHARD D. INGRAM, *Assistant Cashier*

JESSE D. SANDERS, *Assistant Cashier*

GEORGE C. COCHRAN, III, *Assistant Counsel
and Assistant Secretary of the Board*

HERMAN B. HUDSON, *Assistant General Auditor*

EL PASO BRANCH

FREDRIC W. REED, *Vice President in Charge*

FORREST E. COLEMAN, *Cashier*

THOMAS H. ROBERTSON, *Assistant Cashier*

HOUSTON BRANCH

J. L. COOK, *Senior Vice President in Charge*

RASCO R. STORY, *Cashier*

JOHN N. AINSWORTH, *Assistant Cashier*

R. J. SCHOENHOFF, *Assistant Cashier*

SAN ANTONIO BRANCH

CARL H. MOORE, *Vice President in Charge*

FREDERICK J. SCHMID, *Cashier*

THOMAS C. COLE, *Assistant Cashier*

ROBERT W. SCHULTZ, *Assistant Cashier*

business review



january 1969

FEDERAL RESERVE
BANK OF DALLAS

Annual Report Issue

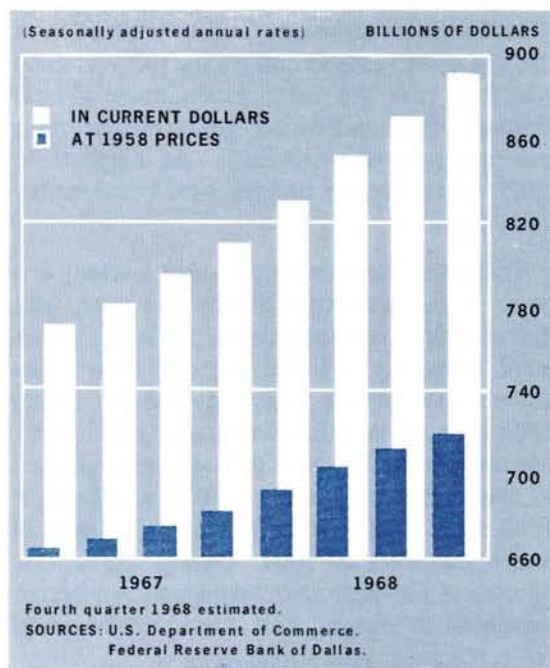
<i>contents</i>	<i>1968—high demand amid inflation</i>
	<i>national situation</i>
	<i>economic developments</i> 3
	<i>financial developments</i> 7
	<i>international developments</i> 13
	<i>regional situation</i> 15

1968—high demand amid inflation

national situation

The year 1968 can be characterized as one of booming economic conditions, with virtually full employment, high-level output, and rapid expansion in personal income. It was a year highlighted by crises on the international monetary front; the passage of an income tax surcharge, along with congressionally directed restraints on spending; preoccupation with national elections; great social unrest; and pronounced price inflation. Gross national product, or the value of goods and services produced in the Nation, last year reached \$860 billion, or 9 percent above the 1967 total. The gain outstripped the 1967 increase by a wide margin.

GROSS NATIONAL PRODUCT



If adjusted for price changes, the rise in GNP last year is double the small advance achieved in 1967 but is lower than in any other year since 1963.

economic developments

Aided by the largest increase in prices during this decade, gross national product rose to new records in each successive quarter last year, although the pace of economic growth was slightly more rapid during the first half of the year. After advancing at an annual rate of nearly \$16 billion in the last quarter of 1967, GNP during 1968 increased \$20 billion in the first quarter and rose by a slightly larger amount in the second quarter. The rate of expansion eased slightly during the remaining 6 months, but the gain averaged around \$17 billion for the period.

With the exception of net exports, all of the broad categories of spending — personal consumption, private investment, and government outlays — contributed to the advance in economic activity. The private sector of the economy accounted for a significantly larger proportion of final sales last year than was the case in 1967. A dampening in demands from the private sector was one of the results expected to be derived from the income tax surcharge. The fact that the dampening influence was not as immediate or as pronounced as was expected by many analysts probably was a surprise.

The vigor in personal consumption expenditures was a key factor contributing to gains in the national economy, and marked rises in such spending occurred in each quarter. In fact, during the third quarter, the \$13 billion increase in personal consumption expenditures repre-

sented 72 percent of the rise in total GNP. For the year, personal consumption outlays exceeded those in 1967 by nearly 9 percent.

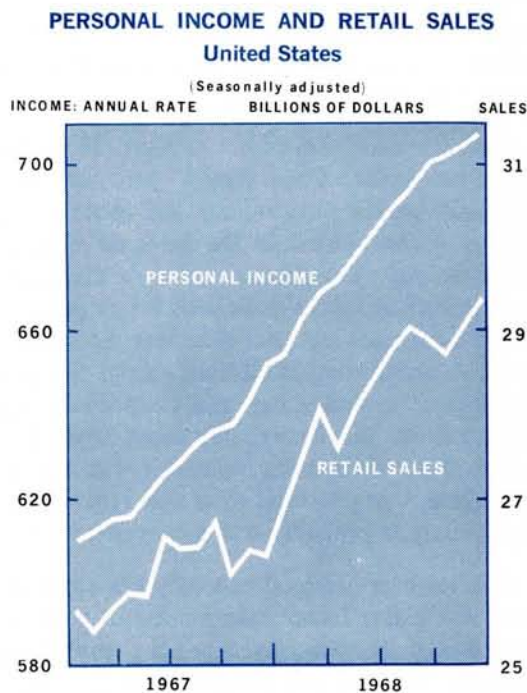
In contrast to 1967, when purchases of durable goods rose only moderately, the consumer sharply increased his outlays for these items last year. Automobiles, in particular, caught the fancy of the consumer; and in October, an all-time high was set in the number of units sold. The rise in durable goods spending was not restricted to automobiles; furniture and appliances also shared in the increased sales. In the nondurable goods area, department stores, apparel outlets, and drug and proprietary stores experienced substantial gains in sales, and spending on services continued its long-term uptrend.

Several elements may have contributed to the strength in consumer buying last year. The consumer entered the year in a relatively liquid

position, having saved a historically high proportion of his income in 1967; during 1968, he reduced his rate of saving, although it was still high, and expanded his use of credit. In addition, personal income rose substantially last year—9 percent—with many of the wage settlements providing heavy “front-loaded” increases in pay. Wages and salaries expanded more rapidly than did other sources of income. The advance in manufacturing workers’ pay, relative to the rise in output, resulted in a gain of more than 4 percent in labor cost per unit of output. It is likely that the accelerating price increases for a wide range of goods provided a spur to consumers who were buying in order to avoid anticipated higher markups.

Total governmental purchases of goods and services rose again last year, but the gain was well below that in either 1966 or 1967. The slackening in the upward pace of spending by the Federal Government was somewhat greater than that for state and local governmental units. Expenditures by the Federal Government tapered in the last half of the year, partially as a result of a curtailment in some programs, a reduction in employment, and a moderation in the rate of increase in outlays for the Viet-Nam war. Last year, the rise in expenditures of both Federal and non-Federal governmental units was more evenly balanced—in contrast to 1967, when Federal outlays were considerably more vigorous.

Total fixed investment provided a strong impetus to the growing economy last year, with the advance, percentagewise, in such investment exceeding the rise in total GNP. The growth in business fixed investment during 1968 was much greater than the small 1967 rise but was well below the sharp gain achieved in 1966. Plant and equipment expenditures in 1968 totaled about \$64.5 billion, or 4.7 percent above the level of 1967. During the second quarter of the past year, plant and equipment expenditures dipped but, then, recovered to finish the year on a strong note.



The expenditures of one industrial group, transportation other than railroads, were 17 percent above 1967 — the largest gain of any industrial group — with airlines, trucking, and pipelines having the most noteworthy advances. Public utilities also showed large capital spending increases during the year. One nondurable goods manufacturer, the rubber industry, showed a very substantial gain by increasing plant and equipment expenditures 25 percent in 1968.

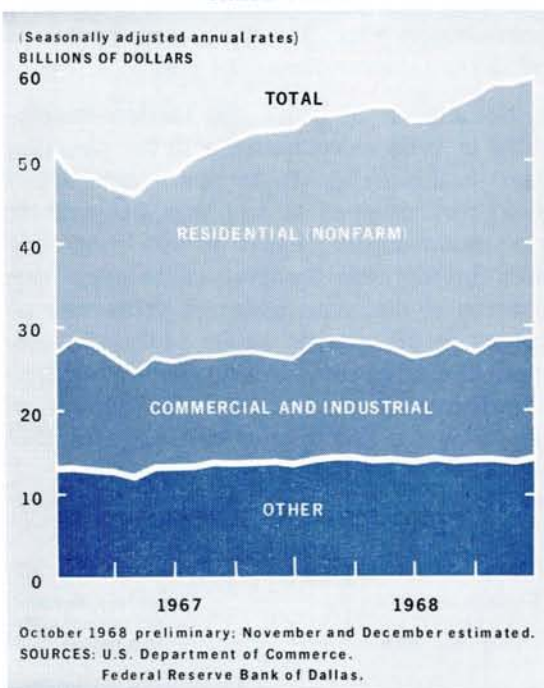
A factor contributing to the slight gain in manufacturing plant and equipment expenditures was the low capacity utilization rate for most industries during the year. In the first half of 1968, the rate was about 85 percent — little changed from the level in the first quarter of 1967. After the slowdown in steel output during August and September 1968, the rate dropped even lower.

Changes in business inventories last year were heavily influenced by developments in the steel and automobile industries; and considering the rise in final demand, inventory growth remained within fairly manageable bounds. Inventory accumulation was very evident during the second quarter of the year, when a rise of \$10.8 billion, on an annual-rate basis, took place. High steel output, along with the concomitant building of steel inventories in anticipation of a steel strike on August 1, was a major reason for the second-quarter rise. It was felt that large steel inventories would act as a depressant on total industrial production after July, but vigorous economic activity tended to offset this prospect.

Involuntary inventory accumulation was not a problem in 1968 for most sectors of the economy. Demand by consumers prevented the problem from arising. The inventory-shipments ratio of manufacturers averaged 1.71 during the first 9 months of the year and was lower than the figure for 1967. The ratio undoubtedly would have been much lower for the January-

September period of last year if large stocks of steel had not been accumulated. During the last half of the year, automobile manufacturers increased inventories, in order to insure a large selection, in response to the rapid pace of sales.

NEW PRIVATE CONSTRUCTION United States



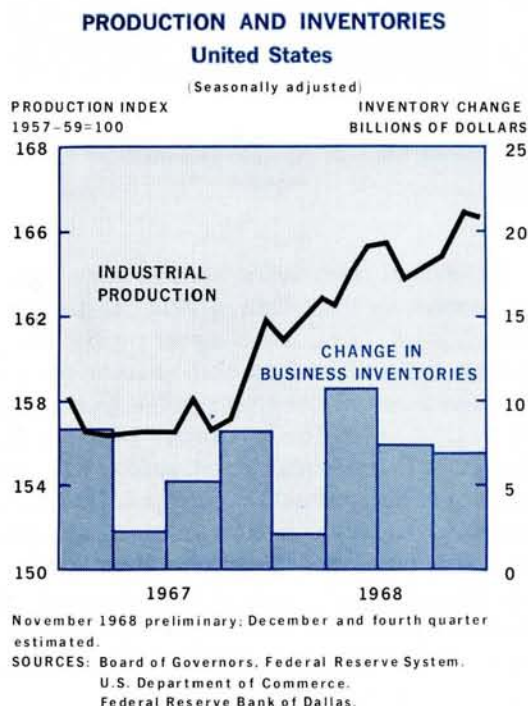
Residential construction showed more vigorous activity in 1968 than in either of the previous 2 years. Partly reflecting the rapidly rising construction and land acquisition costs, outlays for private residential construction approached 12 percent above 1967. A major factor in the strength of residential construction was the building of apartments. Demographic factors — including the record number of marriages during 1968, population growth, and the continuing tendency on the part of retired persons to maintain separate households — were important in stimulating residential construction, especially of multiple units.

Despite the high mortgage rates, residential building moved up sharply last year. Housing starts averaged 1.5 million units during the first 11 months of the year, or almost 18 percent above the average for 1967 and 30 percent above the depressed level of 1966. Toward the end of 1968, it was reported by industry sources that, despite the rapidly rising prices of homes and high mortgage interest rates, prospective home buyers were showing greater interest in purchasing than earlier in the year.

Net exports of goods and services deteriorated in 1968 as compared with the preceding years in this decade. In the first quarter of last year, they dropped to less than one-half the rate of the fourth quarter in 1967 and were even further below the levels of the other three quarters of that year. However, gains were recorded in net exports as the year 1968 progressed. During some months, deficits on merchandise trade occurred. Heavy imports of copper in the first quarter of 1968, stemming

from the continuance of the copper strike, were a prime factor in a disappointing first quarter, although imports of this kind on such a heavy scale are nonrecurrent. Throughout the year, imports of steel and of automobiles were high.

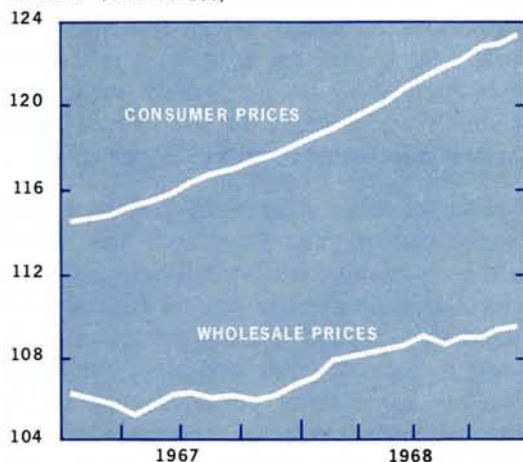
Industrial production rose to new records in 1968 and averaged 4 percent more than in 1967. The high levels of crude petroleum output during the winter were a stimulant to total production early in the year, and the resumption of copper production in March also buoyed industrial output after an exceedingly long copper strike. A very high level of output was maintained during the May-July period, when the iron and steel industries boosted output rapidly in order to produce large inventories as a hedge against a possible steel strike on August 1. Requirements generated by the Viet-Nam war kept defense production on a high plateau, but there was no major increase in defense output. Industrial output decreased markedly in August, as steel output dropped, but surged in the last quarter. Automobile production in 1968 was far higher than in the previous year, with output in October setting a new monthly record.



Manpower requirements to service the expanding economy were very large throughout 1968, while the civilian labor force expanded less rapidly than in 1967. The unemployment rate for all workers averaged 3.6 percent, with the rate for married men being no higher than 1.7 percent during any month. In November, the unemployment rate was 3.3 percent, which is the lowest rate since the Korean war era. The high rate of teen-age unemployment continued to receive publicity, as during the last couple of years, because of the problems associated with many urban areas. However, the lack of skills and permanency of teen-age workers has hindered their employment. During the year, non-manufacturing employment grew more rapidly than the manufacturing work force, even though the length of the manufacturing work-week increased fractionally. State and local

PRICE MOVEMENTS United States

PERCENT (1957-59=100)



November and December 1968 estimated.
SOURCES: U.S. Department of Labor,
Federal Reserve Bank of Dallas.

government employment showed the fastest rise of any major category; the number of workers employed by the Federal Government trended downward after mid-1968.

One of the principal problems facing the economy during 1968 was inflation. Rising prices were clearly evident in the consumer sector, with the consumer price index advancing about 4 percent on a year-to-year basis. The rate of advance was the highest since the Korean war period of 1951. The largest price advances occurred in consumer services, where labor inputs constitute a major part of total cost. It is the service sector that has experienced the fewest gains in labor productivity. Medical costs have made perhaps the most rapid advance of all services, with the reason being attributed to strong wage gains by hospital employees and to medicare benefits for the aged. Homeownership costs, especially mortgage interest rates, have also shown marked advances.

financial developments

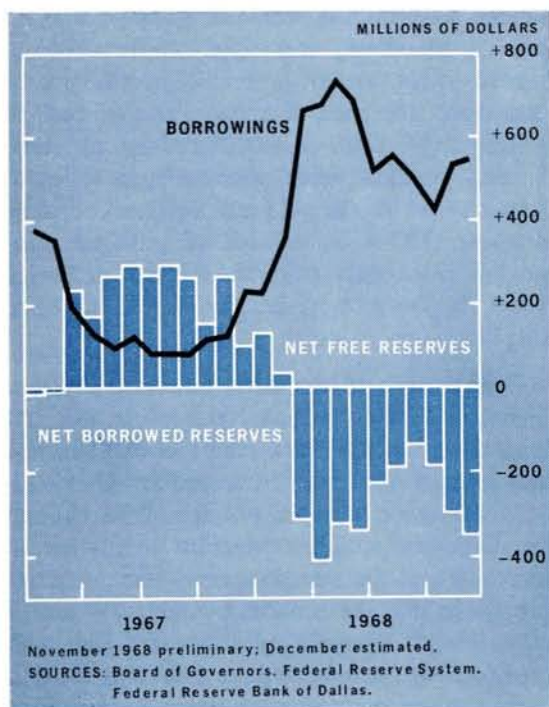
Financial markets in the United States were subject to pressure during the first half of 1968

and again late in the year by heavy demands for funds at a time when monetary restraint tended to limit the available supply. Interest rates in the money and capital markets rose to record levels. Although credit growth slowed somewhat, the pace of expansion continued at a high level. Both domestic and international financial markets were affected by a series of severe crises in the gold and foreign exchange markets. The U.S. balance of payments improved moderately from the swollen deficit of 1967, despite a sharp deterioration in the trade surplus.

The pattern of domestic financial developments in 1968 was quite uneven. In the first half, the growth of bank credit slowed sharply, and interest rates reached record levels in mid-May. However, with the passage of the Federal tax increase-spending reduction legislation in late June and the attendant development of expectations that the economy would slow markedly, interest rates moved downward and bank credit growth accelerated. In late summer and early autumn, interest rates began to move upward again, since continued rapid economic growth suggested that the surtax was not affecting the economy as rapidly as many market participants had expected.

Each of the three major tools of general monetary policy was employed by the Federal Reserve System to moderate the pace of economic expansion in early 1968. Reserve requirements on demand deposits were advanced early in January. The discount rate was increased twice in the spring — in March and in April — and reached 5½ percent, the highest level since 1929. Moreover, open market operations in the first half were conducted so as to reduce the growth of bank reserves progressively. The net reserve position of the Nation's member banks shifted from net free reserves of almost \$200 million in the fourth quarter of 1967 to a slight net borrowed reserve figure of \$44 million in the first quarter of 1968 and to a deep net borrowed reserve level of over \$350

RESERVE POSITION OF MEMBER BANKS United States



million in the second quarter. The management of open market operations was complicated in the first half, particularly in March and April, by the gold crisis, which resulted in large international flows of funds.

The pressure on bank reserve positions was reduced after midyear, especially in the third quarter, as monetary policy sought to accommodate the easing in money market conditions associated with the passage of the Federal tax increase-expenditure reduction bill. Net borrowed reserves became less deep, averaging almost \$200 million in the third quarter. Moreover, the Federal Reserve discount rate was lowered one-fourth of 1 point in late August.

In November and December, the pressure on bank reserve positions was intensified as it became evident that the economy was maintaining its momentum. Net borrowed reserve posi-

tions approached the deep levels of the second quarter. The conduct of open market operations in late 1968 was made more difficult by a major international financial crisis, related to the French franc and the German mark, which again brought about particularly large international flows of funds. In mid-December, the discount rate was returned to 5½ percent.

Money market rates moved upward quite sharply through mid-May, with the market yield on 3-month Treasury bills approaching 6 percent and the effective rate on Federal funds exceeding 6 percent. Money market rates declined moderately after mid-May, principally reflecting expectations of a slowing in the economy, and the reductions continued through early August. The market yield on 3-month bills fell below 5 percent for a few days, but the effective rate on Federal funds remained near its peak level, primarily because of the technical position of the market.

In early August, money market rates again began to move upward, as market expectations were disappointed by continued buoyant economic news. The upward adjustment of rates became quite sharp in the fall; and by December, most money market rates had retraced virtually all of their previous decline and were near their peak May levels. By mid-December, in fact, the market yield on 3-month Treasury bills exceeded its mid-May peak and was about 6 percent.

The prime rate, the rate charged by commercial banks for short-term loans to the most creditworthy borrowers, generally moved in line with other market rates in 1968. The prime rate was increased to 6½ percent in April. In late September, however, after the declines in market rates and the Federal Reserve discount rate, the prime rate was reduced to 6¼ percent by some banks and to 6 percent by others, once again resulting in a split prime rate. Following the sharp advances in market rates in the fall (including CD rates, which moved to near-

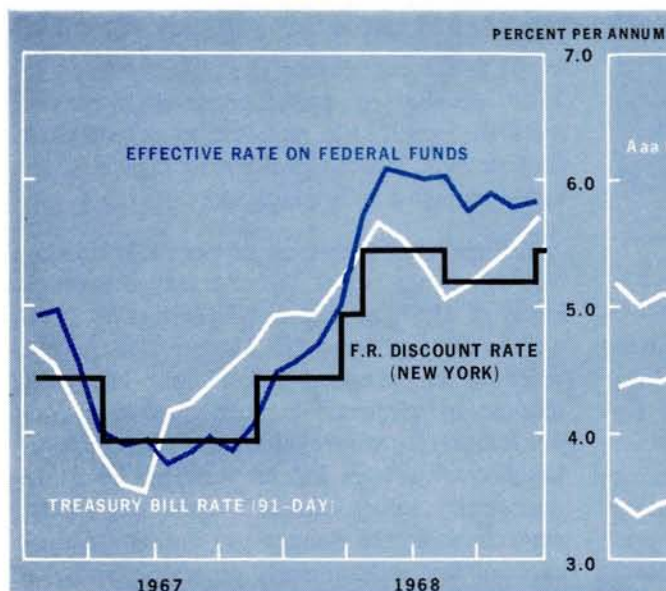
ceiling levels) and because of heavy loan demand, the prime rate was raised back to 6½ percent in early December and to a record 6¾ percent in mid-December.

Yields in the capital market generally paralleled money market rates during most of 1968. The increase in rates in the capital market in 1968 was less pronounced than in the money market, since capital market rates had advanced throughout most of 1967. Yields adjusted upward until mid-May, with gains ranging from 5 to 15 basis points, then declined about 15 to 30 basis points through early August, but finally rose substantially late in the year. The rise in yields late in 1968 brought most capital market issues beyond their previous highs by year-end; particularly was this the case in the municipal market, which was burdened by an especially heavy supply of new issues. By year-end, some new high-grade corporate issues were offered at about 7 percent.

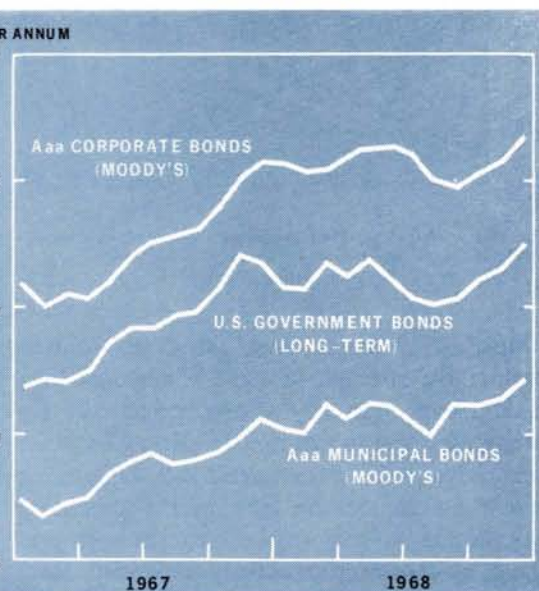
The rate of growth of bank credit at the Nation's commercial banks was almost as rapid in 1968 as in 1967. Total bank credit (loans adjusted and total investments) advanced an estimated 10 percent, compared with an 11.5-percent increase in 1967. In the first half of 1968, however, bank credit rose at an annual rate of only about 6.5 percent. The rate of growth of bank credit ballooned in the third quarter to an annual rate of almost 20 percent, primarily because of heavy Treasury financing and bank loans to Government security dealers to carry the extremely heavy inventory of securities built up in anticipation of a decline in interest rates.

Loan demand was quite strong in 1968, reflecting the rapid advance in economic activity. Loans adjusted increased almost 12 percent, or nearly 50 percent more than in the previous year. Business loan demand, while relatively strong, was less robust than might have been

SHORT-TERM INTEREST RATES
United States



LONG-TERM INTEREST RATES
United States



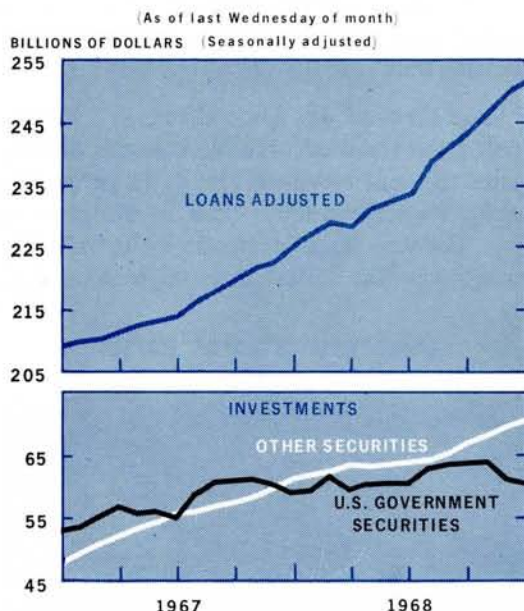
December 1968 estimated.

SOURCES: Board of Governors, Federal Reserve System.
Federal Reserve Bank of Dallas.

expected, given the surging nature of the economy. A partial explanation of this performance includes heavier business participation in the issuance of commercial paper, carry-over liquidity from the record amount of capital market issues in 1967, and the continuingly large volume of issues in 1968. Business loans rose an estimated 10 percent, about the same rate of growth as in 1967.

COMMERCIAL BANK LOANS AND INVESTMENTS

United States



October and November 1968 preliminary; December estimated.
SOURCES: Board of Governors, Federal Reserve System.
Federal Reserve Bank of Dallas.

Most other major loan categories showed considerable strength in 1968. Consumer loan demand was especially strong, principally reflecting the surge in automobile sales. Consumer loans advanced an estimated \$5 billion, or more than double the gain in the preceding year. Similarly, real estate loan demand was robust, as construction activity expanded. Real estate loans at the Nation's commercial banks advanced an estimated \$6 billion, about one-third more than the increase in these loans in

1967. Finally, security loans rose considerably, particularly after midyear.

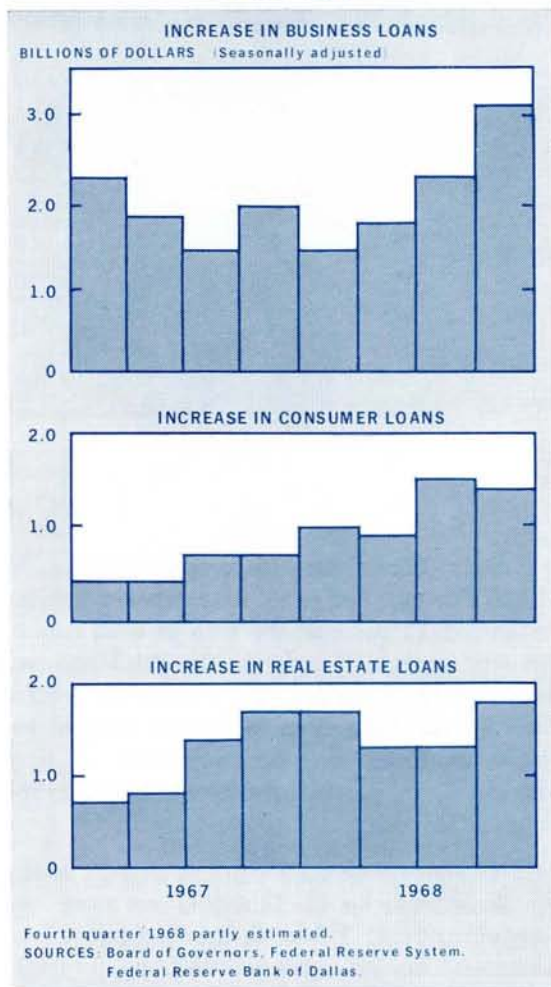
Total investments of the Nation's commercial banks expanded moderately in 1968 — by approximately 9 percent, or substantially less than in 1967. The increase in total investments was spread unevenly over the year, reflecting the variations in monetary conditions; security holdings advanced only about \$3 billion in the first half. Total investments rose rapidly after midyear, however, as deposit inflows increased substantially and the Treasury was a heavy borrower. The rise in total investments during 1968 was heavily concentrated in bank holdings of non-U.S. Government issues (primarily municipals), which expanded an estimated \$9 billion. Holdings of U.S. Government issues rose only about \$1 billion last year.

The improvement in commercial bank liquidity (as measured by the loan-deposit ratio) which had characterized 1967 was reversed somewhat in 1968. After declining from 65.8 percent in December 1966 to 63.8 percent in December 1967, the loan-deposit ratio for all commercial banks in the Nation rose to a high of 66.2 percent during the third quarter of 1968. As the year-end approached, however, the loan-deposit ratio retreated to an estimated 65.5 percent, since deposits grew rapidly while loans expanded only moderately.

Although net long-term corporate borrowing was somewhat below the extraordinarily high levels of 1967, new security offerings in 1968 were still very large by historical standards, reaching an estimated \$21 billion. The large amount of corporate borrowing continued to place upward pressure on interest rates. A combination of factors led corporations to make persistently heavy demands upon the capital market: a sizable discrepancy between capital expenditures and internally generated funds, an increase in corporate income taxes during the year, and expectations of further advances in capital market rates. Increasing emphasis was

placed upon stock issues as capital market yields were high throughout most of the year. Corporate stocks outstanding rose approximately \$4 billion, substantially above the \$2.8 billion recorded in 1967.

SELECTED COMMERCIAL BANK LOANS United States



Most new corporate security offerings (about 80 percent) were bond issues. The value of privately offered bonds increased relative to publicly offered issues. Total public bond offerings were an estimated \$11 billion, down about

\$4 billion from a year ago, while private placements were only slightly below the \$7 billion level of 1967.

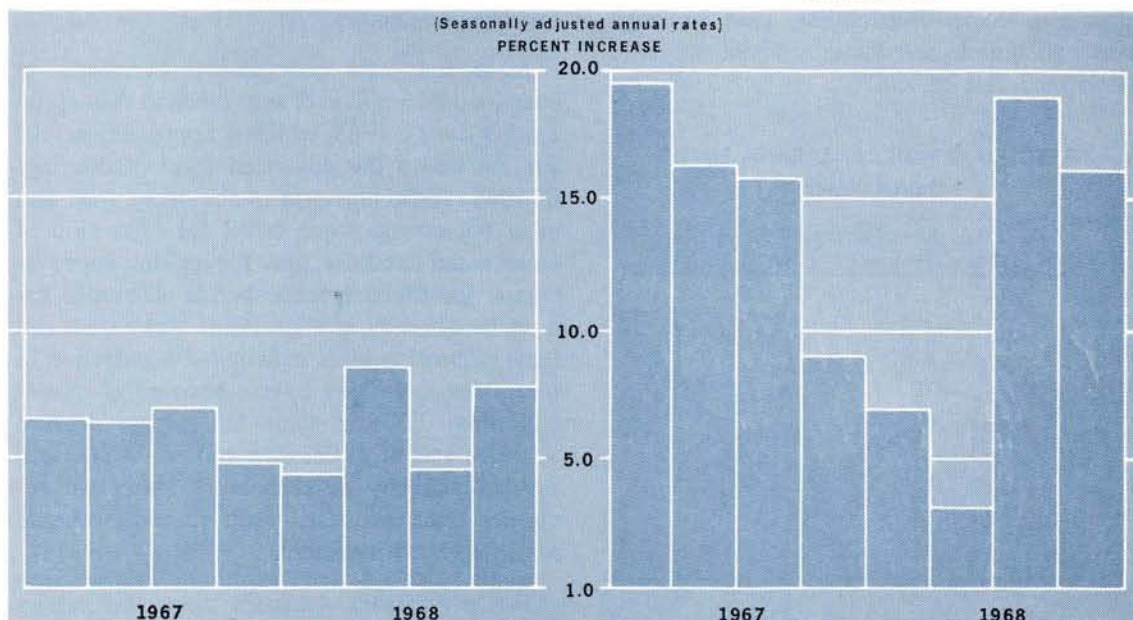
State and local governments borrowed an estimated \$16 billion of new funds in the capital market during 1968, which is approximately 10 percent above the advanced level of offerings in 1967. Reflecting past trends, most state and local borrowings were slated for expansion of educational facilities and for public improvements. Industrial revenue bonds accounted for a sizable share of new issues, as many state and local borrowing units anticipated a reduction in the volume of these bonds because of recent legislation limiting their tax-exempt feature after the end of 1968. Commercial banks were especially heavy purchasers of municipal securities after midyear, when reserves became relatively more available.

While Treasury demands upon the money and capital markets were reduced during the last quarter of 1968 as tax revenues increased substantially, cash borrowings for the 12 months totaled about \$25 billion, around \$4 billion more than in 1967. Most of the new cash—approximately \$13 billion—was raised during the first half of the year. In the second half, the Treasury borrowed an estimated \$12 billion in new money, which is about 25 percent less than the amount borrowed in the comparable 1967 period.

In addition to raising new money in the second half of 1968, the Treasury also refunded \$10.1 billion of maturing notes and bonds through the issuance of an 18-month note and a 6-year note in mid-November. Outstanding issues eligible for exchange totaled about \$11.9 billion, with the public holding \$5.6 billion of the maturing securities. Investors exchanged \$3.7 billion for the new notes. The average maturity of the Federal marketable debt remained relatively stable during the year, rising slightly from 4 years in December 1967 to 4 years 1 month in September 1968.

MONEY SUPPLY
United States

COMMERCIAL BANK TIME DEPOSITS ADJUSTED
United States



Fourth quarter 1968 partly estimated.

SOURCES: Board of Governors, Federal Reserve System.
Federal Reserve Bank of Dallas.

Continuing the rapid pace set in 1967, the money supply (conventionally defined as demand deposits adjusted and currency in the hands of the public) rose an estimated \$12 billion, or 6.6 percent, in 1968. During 1967, the money supply had increased \$11 billion, or 6.4 percent. In both years, an upward surge of demand deposits accounted for most of the gain, as the demand for money for transactions purposes continued strong with the rapid growth of current-dollar GNP. The demand deposit component of the money supply rose approximately \$9 billion in 1968, compared with an \$8.8 billion increase in the previous year. Currency and coin in the hands of the public expanded an estimated \$3 billion, somewhat greater than the gain in 1967.

Time and savings deposits at commercial banks in the Nation continued to expand during 1968. The rate of growth, however, was sub-

stantially below the 16-percent increase in 1967. For the year 1968, time deposits rose an estimated 12 percent; the gain in such deposits was especially rapid in the third quarter, when interest rates declined. Changes in regulation Q and fluctuations in market rates of interest produced irregular movements in time deposit flows, particularly for the large certificates of deposit.

Negotiable time certificates of deposit issued in denominations of \$100,000 or more decreased over \$1 billion in the first half, since advanced market rates reduced the competitiveness of these money market instruments. For the third quarter, however, the amount of the CD's outstanding surged upward around \$3 billion as declining market rates, coupled with the higher regulation Q ceilings in April, stimulated their growth. The amount of large CD's outstanding then grew only moderately in the

last quarter, when market rates once again rose to record levels.

Liquid assets held by the public advanced substantially in 1968, continuing the rapid rate of increase in 1967. Nevertheless, the relatively more attractive money market and capital market rates retarded the flow of funds into financial intermediaries, while holdings of short-term U.S. Government securities increased sharply. Shares in savings and loan associations rose an estimated \$8 billion during the first 11 months of 1968, compared with a \$10 billion increase during January-November 1967. Time deposits at commercial banks and mutual savings banks were up about \$20 billion and \$4 billion, respectively, or somewhat less than the

gains in 1967. Holdings of U.S. savings bonds showed almost no change from the level reached in December 1967.

international developments

The international financial structure was once again subject to severe strain during 1968. There were two major crises which threatened the stability of the existing international financial arrangements, as well as a number of smaller disturbances. The crises were part of a series of continuing upheavals, which have included the devaluation of the British pound sterling in November 1967 and the large gold demand later that year.

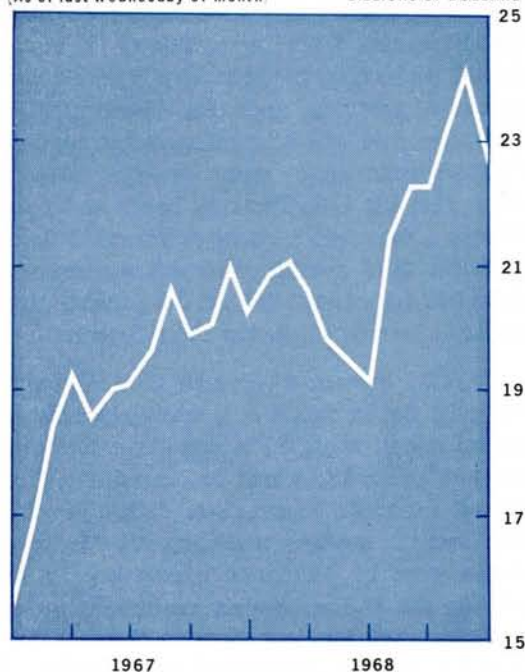
The first major crisis occurred in March and centered on the gold markets, while the second major crisis occurred in November and centered on the values of the German mark and the French franc. Cooperation among the world's central banks was successful in preserving the existing structure, but, as of the end of 1968, international financial markets were still under strain.

The gold markets were faced with numerous bouts of speculative buying in late 1967 and early 1968. In mid-March, enormous speculative purchases of gold occurred, a demand for gold which truly reached stampede proportions. Following large losses of gold, leading central bankers of the world met in Washington, D.C., and announced that they would no longer supply gold to the London market at \$35 per ounce but would trade gold among themselves at that price. In effect, the meeting resulted in the establishment of a "two-tier" gold price — one price in the free market and one price among the central banks. The free market price traded above the level of \$35 per ounce during the remainder of the year, generally between \$37 and \$41 per ounce.

The second major crisis in the international financial structure occurred in November, almost 1 year to the day from the British devalua-

LARGE CERTIFICATES OF DEPOSIT* AT WEEKLY REPORTING COMMERCIAL BANKS United States

(As of last Wednesday of month) BILLIONS OF DOLLARS



*Negotiable certificates of deposit issued in denominations of \$100,000 or more.

December 1968 estimated.

SOURCES: Board of Governors, Federal Reserve System, Federal Reserve Bank of Dallas.

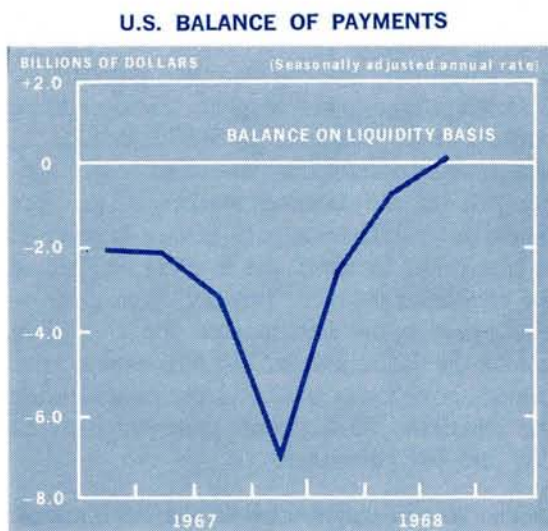
tion. This crisis was a partial outgrowth of the strikes in France in May and the resulting inflation there, coupled with the continuation of a large German trade surplus. These factors indicated to many market participants that there was a distinct possibility of an upward revaluation of the German mark and a devaluation of the French franc. Their expectations produced large movements of funds out of francs and into dollars and marks. Moreover, the crisis placed heavy pressure on the British pound. The threat to the stability of the international financial order was met by a combination of German measures to reduce the trade surplus, French measures to restrain the economy of France, and a package of credits of \$3 billion to that country. In addition, Great Britain announced further restraining measures to increase the effectiveness of the 1967 devaluation.

The Federal Reserve swap arrangements were raised sharply in 1968, advancing from slightly over \$7 billion at the end of 1967 to \$10.5 billion at the end of 1968. The total advance of over \$3 billion in swap arrange-

ments included increases of \$900 million and \$500 million in swap arrangements with the Bank of France and the Bank of England, respectively. As further evidence of international monetary cooperation, additional steps were taken toward the final implementation of the special drawing rights facility during a March meeting of the Group of Ten in Stockholm, and the United States ratified the necessary amendments to the International Monetary Fund late in the year. Moreover, the Bank for International Settlements, acting in concert with a group of 12 central banks, in September announced the availability of a \$2 billion medium-term credit facility to the Bank of England to alleviate the pressures on the pound from the conversion of the sterling balances of the sterling area countries.

During 1968, the U.S. balance of payments continued in deficit, although the deficit was reduced considerably from its swollen 1967 level. The improvement in the balance-of-payments deficit resulted from large inflows of foreign capital, reflecting the President's balance-of-payments program and the unsettlement in European gold and foreign exchange markets. Furthermore, there were heavy sales of nonmarketable U.S. Treasury bonds and notes. However, the trade account deteriorated sharply. In the third quarter, a surplus was reported in the balance of payments on the liquidity basis, the first quarterly surplus in about 3 years.

The U.S. balance of payments, on the liquidity basis, was in deficit at a seasonally adjusted annual rate of about \$1 billion in the first three quarters of 1968, which is considerably improved from the \$3.6 billion deficit in 1967. The record foreign purchases of American stocks were of particular importance in improving the U.S. payments position. Less encouraging was the fact that the Nation's merchandise surplus diminished considerably; in fact, for 4 out of the first 10 months of the year, a deficit was recorded in the merchandise trade account.



Third quarter preliminary.

SOURCE: U.S. Department of Commerce.

The U.S. gold stock declined sharply in 1968, particularly in the early part of the year. From over \$12 billion in late 1967, the gold stock fell to slightly over \$10 billion in March. Most of the reduction in the U.S. gold stock occurred in March, at the time of a surge in the demand for gold on the London market. After March, however, the U.S. gold stock increased slightly.

regional situation

Both the farm and the nonfarm sectors shared in the booming expansion in the Southwest during 1968. Boosted by a record outturn of crops and livestock, the income of farmers and ranchers in the southwestern states of Arizona, Louisiana, New Mexico, Oklahoma, and Texas rose to an all-time high last year. In the nonfarm sector, employment, industrial production, construction activity, income, and retail trade advanced strongly from their 1967 levels to new records. The opening of new plants, as well as the enlargement of existing facilities, continued apace and augmented productive capacity further. HemisFair — a particularly noteworthy event in 1968 — added luster to the region's economy and contributed to the increases in sales and income.

The continuation of substantial demands upon defense-related industries, a further resurgence in residential building, and robustness in consumer spending (especially for automobiles) were among the elements contributing to the vigor in the region's economy. Although petroleum mining last year did not experience the surge in output that had occurred in the summer of 1967 as a result of the Middle East war, crude oil production in 1968 remained well above that in the previous year.

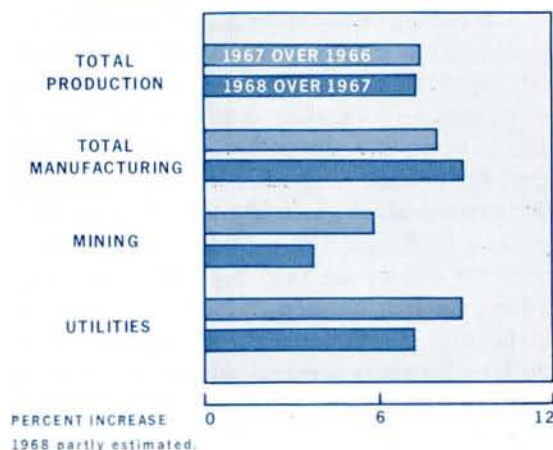
The strike of copper workers which began in the summer of 1967 was settled in March of last year; and although some other industries — such as the construction, glass, and steel industries — were involved in labor-management disputes during 1968, most of the work stoppages

were not of sufficient length or severity to affect overall economic activity for an appreciable period. Generally, wage and salary settlements were relatively large, providing a sizable increase in workers' paychecks, particularly during the earlier part of the period covered by the contracts.

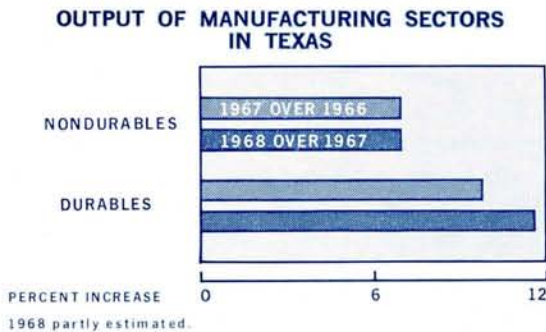
Total industrial production in Texas advanced slightly more than 7 percent last year, and all of the broad industrial sectors shared in the growth. The expansion in output during 1968 did not quite match the 1967 increase, however, mainly because of the somewhat more modest gain in mining production. Overall industrial activity did not advance at a uniform tempo throughout 1968, with output during the latter part of the year showing a relatively more restrained rise.

The advance in manufacturing output provided the major upward thrust to total industrial production in the State. Durable goods manufacturing was particularly strong, increasing by more than 11 percent from 1967. Among the durable goods concerns, producers of transportation equipment, electrical machinery, and "other durable goods" (mainly ordnance) had the greatest gains in output. Manufacturers of transportation equipment stepped up produc-

INDUSTRIAL PRODUCTION IN TEXAS



tion substantially to meet the demands for military aircraft and parts and for automobiles. Concerns producing electrical machinery and ordnance continued to meet orders for electronic components, communication devices, bomb casings, and other ordnance for the Viet-Nam war and defense purposes.



Production of nondurable goods in Texas rose about 7 percent last year, or approximately the same as in 1967. Chemical and allied products and petroleum refining were among the nondurables industries showing the largest increases in output. On the other hand, production of textile mill products eased slightly below that achieved in the previous year; and the output of apparel and allied products was little changed. In both 1966 and 1967, these two industries had registered significant gains.

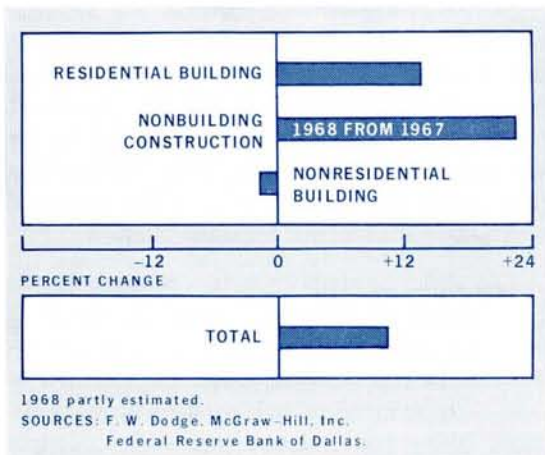
The mining sector in the State is heavily dominated by crude petroleum developments. Crude oil output in Texas during 1968 expanded about 4 percent—somewhat less rapidly than in 1967, when the disruption of supplies from the Middle East resulted in a sharp increase in domestic production during the summer. After peaking in August 1967, crude oil output eased until the end of the year but rose significantly during the first quarter of 1968, as a shortage of heating oils threatened. Subsequently, production generally trended downward until the final months of the year, when output held close to its year-earlier levels.

After increasing slightly in excess of 4 percent during 1967, construction activity in the five southwestern states in 1968, as indicated by the value of construction contracts, rose over 10 percent to an estimated \$6.3 billion. Nonbuilding construction paced the upswing by gaining more than a fifth; residential building advanced about 13 percent. On the other hand, nonresidential building showed little vigor during 1968 and may total slightly below the prior year's level. Higher land and construction costs gave an important assist to the rise in the dollar volume of building activity.

The strength in nonbuilding construction was heavily centered in utilities and sewerage and water supply systems to serve the Southwest's growing population. Preparation of sites for airports also contributed to the increase in nonbuilding construction activity. Street and highway building, however, showed little growth from the high level in 1967, partly as a result of the more restrained flow of Federal highway funds.

The rise in residential construction last year reflected a further recovery from the depressed level in 1966. The gain in residential building in 1968, as in the preceding year, was buoyed

**VALUE OF CONSTRUCTION CONTRACTS
Five Southwestern States**



by a sharp increase in multiple-family units, especially large apartment complexes. Nevertheless, the construction of single-family homes also rose significantly.

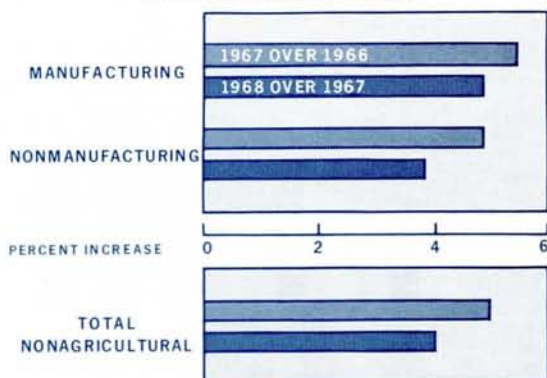
Although the estimated value of nonresidential building contracts in the Southwest last year does not quite match the value for 1967, the 1968 total is still the second highest of record. Some moderation in the pace of construction of religious and educational structures, hospitals, and commercial buildings was an important element in the relative stability of nonresidential building in 1968. Moreover, the construction of space for occupancy by governmental units tapered somewhat.

The labor market in the Southwest remained tight last year. Total nonagricultural wage and salary employment in the five states in 1968 averaged approximately 4 percent larger than in the previous year. Although the expansion in employment was not as great as that in 1967, the smaller gain may have stemmed, in part, from the somewhat less rapid growth in the labor force and the inability of some employers to hire workers with desired skills.

The increase in the number of entrants into the labor force was fairly well paced with the rise in employment; and unemployment in the five-state area in 1968 averaged about 3.4 percent of the labor force, a rate fractionally lower than in the prior year. In some of the major labor markets — Dallas, Fort Worth, and Houston — the unemployment rate dipped below 2 percent during several months last year.

Percentagewise, the number of manufacturing workers last year showed a larger increase than did the nonmanufacturing work force. In the nonmanufacturing sector, each of the broad categories of employment advanced from 1967. As in other recent years, the numbers of workers in service industries and in all levels of government experienced the greatest gains. State and local governmental units, in particular, have found it necessary to increase their work force

WAGE AND SALARY EMPLOYMENT Five Southwestern States



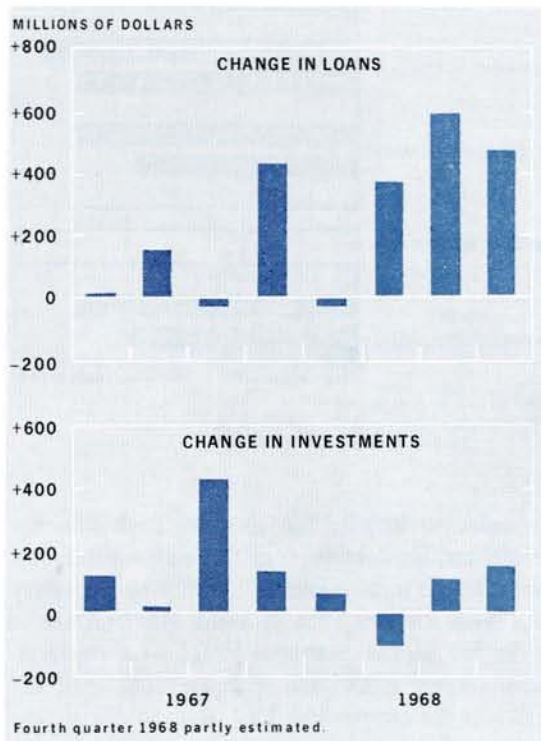
1968 partly estimated.
SOURCES: State employment agencies.
Federal Reserve Bank of Dallas.

in order to handle the growing demands for education, protection, health, and similar services. In the mining sector, the number of salary and wage earners rose in 1968 (in contrast to a decline in the previous year) — a development largely associated with the ending of the strike in the copper industry. Also, construction employment advanced more rapidly last year than during 1967, reflecting the higher level of construction activity in the southwestern states.

Total agricultural output in the five Eleventh District states in 1968 increased approximately 13 percent above the preceding year and was 5 percent more than the record set in 1965. A sharp gain in crop production was responsible for a major part of the increase, although livestock production also rose. Cattle and calves accounted for virtually all of the rise in the outturn of livestock products. The greater volume of marketings, together with larger Government payments, lifted farm income last year to a record.

The increases in employment, in average wages and salaries, and in farm and ranch income in the Southwest boosted total personal income, which rose well in excess of the 1967 gain of over 8 percent. Southwesterners' eager-

MEMBER BANK LOANS AND INVESTMENTS Eleventh Federal Reserve District



ness to spend seemed little daunted by the imposition of the income tax surcharge in mid-1968; and purchases probably were stimulated by the rapidly rising money incomes, a high level of accumulated savings, and the increased use of consumer credit.

The gain in retail sales in the Southwest last year is estimated to be more than triple the small, 3-percent rise in 1967. Although part of the large sales gain in 1968 reflected higher prices, as well as an accelerated sales tax rate, the increase in sales volume at retail outlets was sizable as compared with other recent years. Spurred by a sharp rise in automobile sales, the sales volume of durable goods outlets experienced the sharpest advance. Automobile registrations during 1968 in major Texas cities totaled about 19 percent above those in the

previous year. Nondurable goods sales also increased significantly last year, and department store sales were very strong, rising around 11 percent.

Eleventh District banking developments during 1968 reflected many of the same factors as those in the Nation. Bank credit, loans, and demand and time deposits rose rapidly; and investments expanded moderately. For the member banks in the District, loans advanced faster than deposits; consequently, the loan-deposit ratio increased further. Net purchases of Federal funds were generally heavier than in 1967, reflecting the differing monetary environments of the two years.

Commercial bank credit — loans and investments — grew rapidly and increased about 11 percent over the previous year, exceeding the gain for the Nation. The primary reason for this large rate of increase in bank credit in 1968 was a very strong loan demand. Loans expanded at more than double the rate in 1967, with strength in demand existing for business, consumer, and real estate loans. Business loans at the larger banks in the District were especially strong.

Total investments increased an estimated 5 percent at the member banks in the District in 1968. This increase is down sharply from the 15-percent gain in the previous year but reflects the fact that the large loan demand was partially met by the reduction of security holdings. Holdings of both U.S. Government and non-Government securities showed less strength than in 1967. Non-Government security holdings rose approximately 12 percent, but Government holdings actually declined slightly.

Total demand deposits advanced an estimated 10 percent in 1968, which is below the 11-percent gain in the previous year but is still a very rapid pace. In contrast, total time and savings deposits rose more rapidly than in 1967, increasing an estimated 15 percent. The sharp rise in total time and savings deposits in 1968

reflected a surge in the large CD's; negotiable time certificates of deposit issued in denominations of \$100,000 or more reached a record level of about \$1.6 billion in late 1968.

District member banks experienced an increase in their loan-deposit ratio last year, and the ratio exceeded 60 percent in two months. At the end of 1967, this ratio was less than 57 percent — high by historical standards but below the figure for the end of 1968, which is about 58 percent.

Net Federal funds purchases by District banks rose sharply last year, reaching peak levels about midyear and primarily indicating pressure on reserve positions. Reflecting the same factors, member bank borrowing from the Federal Reserve Bank increased considerably to attain a high of \$48.9 million, on a monthly average basis, in May and continued at relatively high levels throughout the remainder of the year. The level of borrowing in 1968 compares with a 1967 peak of \$6.1 million, on a monthly average basis, in December.

***new
par
bank***

The First State Bank, Austin, Texas, an insured nonmember bank located in the territory served by the San Antonio Branch of the Federal Reserve Bank of Dallas, was added to the Par List on its opening date, December 9, 1968. The officers are: William A. McGinty, Executive Vice President; Shirrell Hipp, Vice President and Cashier; and Douglas White, Assistant Cashier.