

Federal Reserve Bank of Dallas March 1983

MMDAs Take Off In The Eleventh District; Super NOWs Lag Behind

Eleventh District financial institutions are reporting sharp increases in Money Market Deposit Accounts (MMDAs). Interest in super NOW accounts, on the other hand, has been moderate. Most depository institutions priced the super NOW accounts to minimize shifting from other transactions accounts. But competition for MMDAs has been aggressive. Interest rates reported by banks and S&Ls have been above those reported by money market mutual funds. And until recently, rates on MMDAs exceeded those paid on large CDs. S&Ls have been paying up to one and one-half percent more than banks. They were also more aggressive in offering bonus premiums on funds scheduled to be rolled into MMDAs last December.

Growth and Distribution of New Accounts

The new MMDAs are viewed as a key source of funds. To date, 88 percent of the increase in funds in the new ceiling-free accounts represents growth in MMDAs. More than three-quarters of the MMDA funds have come from individuals. The S&Ls have raised a relatively large proportion of these consumer deposits by offering higher yields. But banks have had a strong comparative advantage in attracting business deposits.

By mid-February, deposits in MMDAs reached \$15.3 billion. Balances at banks accounted for 67 percent of this total, while S&Ls acquired nearly 33 percent. The shares of total deposits at banks and S&Ls are

76 percent and 24 percent respectively. S&Ls have attracted about 39 percent of the personal balances but only 8 percent of the non-personal funds.

Banks were the primary providers of the new transaction accounts. About 85 percent of balances in super NOWs were deposited at banks, despite higher interest rates offered by S&Ls.

Growth in super NOWs already has tapered off. After six weeks, deposits in these accounts reached \$2.0 billion. That compares with a \$12.1 billion increase in MMDAs during a comparable period. Higher reserve requirements are keeping interest rates on the unlimited transaction accounts one to

(Continued back page)

Texas Labor Statistics and the Problem of Sampling

Texas monthly labor statistics come chiefly from two sources. Unemployment, labor force, total employment, and some other related statistics come from a sample of about 3,000 Texas households used by the Bureau of the Census for its Current Population Survey (CPS), sometimes labeled the household survey. More finely disaggregated employment information, as well as data on hours worked and earnings received, comes from a sample of 10,900 nonagricultural business establishments commonly called the establishment survey.

State statistics from the CPS sample are particularly imprecise. Because the number of households is small, the estimate of the Texas unemployment rate must currently change by 0.8 percentage point before we can say with 90 percent confidence that there has been any movement at all. Thus, a fall in the rate of unemployment from 8.0 to 7.3 percent could actually represent nothing but statistical noise due to sampling error. After making allowances for such noise, one is led to the conclusion that the true Texas unem-

ployment rate remained steady in the neighborhood of 8 percent between September 1982 and January 1983, even though the reported statistic varied between 7.6 and 8.4 percent. February's rise to 8.8 percent, however, unequivocally implies worsening conditions.

Further room for misinterpretation arises from contradictory movements of series from the separate surveys. In the past year, total Texas employment as measured by the household survey rose 3 percent, while nonagricultural employment measured by the establishment survey fell 1.6 percent. The information from the establishment survey probably provides a more accurate representation of developments in Texas labor markets over the past year. Major contributors to the past year's decline in nonagricultural employment have been a reduction of over 100,000 in manufacturing employment and nearly 30,000 in mining employment. Conditions are not expected to strengthen dramatically in the near future.

—Bill Gruben

**NEW CEILING-FREE DEPOSIT ACCOUNTS
ELEVENTH FEDERAL RESERVE DISTRICT**
Millions of Dollars

	12-15-82	1-12-83	2-16-83
MMDAs			
Banks	131.3	5,731.6	10,292.9
S&Ls	108.2	2,768.1	4,980.7
Super NOWs			
Banks	n.a.	637.2	1,724.2
S&Ls	n.a.	157.2	298.0
Total	\$239.5	\$9,294.1	\$17,295.8

**DEPOSIT FLOWS: ELEVENTH FEDERAL
RESERVE DISTRICT**
Millions of Dollars

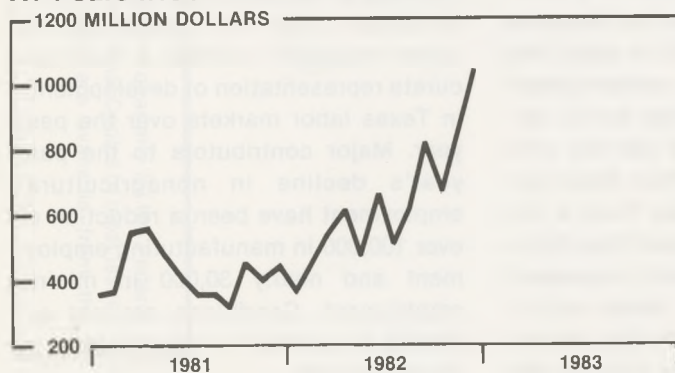
	12-15-82 to 2-16-83	
	Change in Deposits	
	Banks	S&Ls
Savings Deposits		
Less MMDAs	-1,158.8	-849.2
Small Time Deposits	-2,445.4	-1,730.6
Total Change	\$-3,604.2	\$-2,579.8
Change as % of MMDAs held ...	(35.0%)	(51.8%)

ELEVENTH DISTRICT CREDIT CONDITIONS

	1980		1981		1982	
	Change*		Change*		Change*	
	(Millions \$)	(Percent)	(Millions \$)	(Percent)	(Millions \$)	(Percent)
ALL MEMBER BANKS						
Total Loan Growth	5,890.6	14.0	11,208.8	23.4	11,485.9	19.4
Total Deposit Growth	7,185.4	13.6	9,979.3	16.6	10,550.0	15.1
LARGE WEEKLY REPORTING BANKS						
Total Loans	2,343.0	12.9	5305.7	25.8	4,881.2	18.9
Business	1,703.1	20.5	4,543.5	45.4	3,363.3	23.1
Real Estate	435.3	13.7	747.6	20.7	1,353.1	31.0
Consumer	-40.9	-2.1	-160.4	-8.4	158.6	9.1

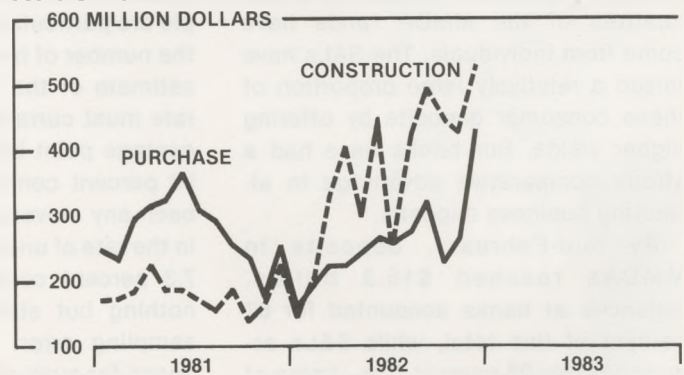
* Dollar and percent changes were calculated comparing fourth quarter averages from weekly reported bank data to the previous year's fourth quarter averages.

**NEW LOAN COMMITMENTS
AT FSLIC-INSURED S&L'S: TEXAS**



SOURCE: Federal Home Loan Bank Board.

**LOANS CLOSED FOR CONSTRUCTION
AND PURCHASE OF REAL ESTATE
AT FSLIC-INSURED S&L'S: TEXAS**



SOURCE: Federal Home Loan Bank Board.

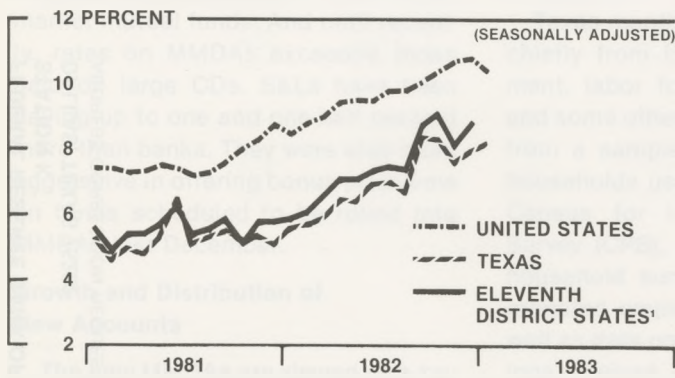
DISTRICT BRIEFS

- The unemployment rate in Texas edged back up to 8.2 percent in January. Employment declined less than 1 percent from December's level. One-half of the decrease was in retail trade employment. Job losses were scattered in other industries.
- During the four weeks ending February 19, sales at surveyed department stores decreased slightly in nominal terms compared with the same period last year, but performance varied considerably around the District. Sales increased 18 percent in Austin and 8 percent in Dallas and in Fort Worth. Sales declined 2 percent in Houston, 5 percent in San Antonio, and 30 percent in El Paso.
- The pace of nonresidential construction is steady, buoyed by work on many medium and small projects.
- Residential construction will hit record levels in

Texas this year. Permits for single- and multi-family housing reached nearly 200,000 last year, exceeding 1978's record by 18 percent. Multi-family housing accounted for half of these permits. More than 18,000 permits were written in January, exceeding last year's monthly average.

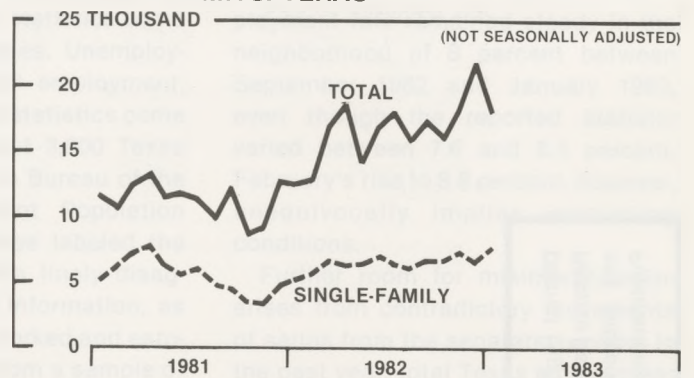
- S&Ls are actively funding new loans for real estate purchase and construction.
- Borrowings and investments increased strongly at member banks in the Eleventh District in January. Loan growth was slightly above average but deposit growth slowed.
- At large weekly reporting banks, business and consumer loans picked up in January and real estate lending remained robust.
- The rig count has declined steadily since the beginning of this year in both Texas and the nation. No turnaround is in sight.

UNEMPLOYMENT RATE



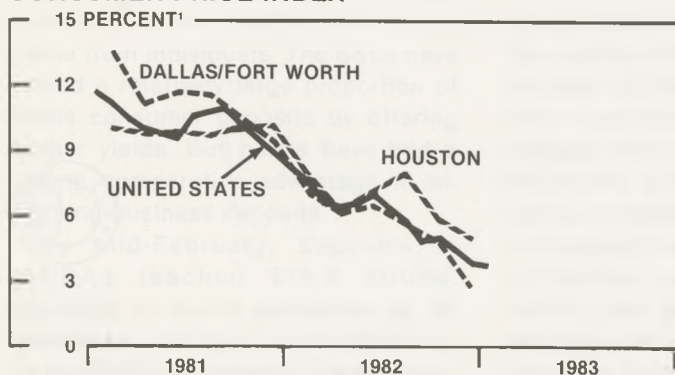
1. Louisiana, New Mexico, Oklahoma, and Texas.
 SOURCES: U. S. Department of Labor, Bureau of Labor Statistics.
 Texas Employment Commission.

HOUSING PERMITS: TEXAS



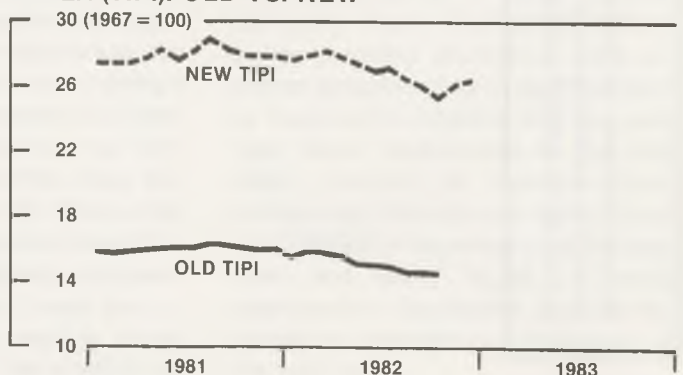
SOURCES: U. S. Department of Commerce, Bureau of the Census.

CONSUMER PRICE INDEX



1. Percent change from same month in previous year.
 SOURCE: U. S. Department of Labor, Bureau of Labor Statistics.

TEXAS INDUSTRIAL PRODUCTION INDEX (TIPI): OLD VS. NEW



SOURCE: Federal Reserve Bank of Dallas.

MMDAs (cont.)

two percent below quotes on MMDAs. Many institutions also are requiring that depositors maintain larger minimum balances on super NOWs than on MMDAs to avoid monthly maintenance fees. Fees as high as \$20 per month, but more typically between \$5 and \$10 per month, are being charged if balances drop below specified minimums.

Impact on Cost of Funds

By mid-February the share of total deposits held in MMDAs and super NOWs accounted for 13.6 percent of deposits at S&Ls and 9.9 percent of bank deposits. Concern has been expressed about the impact these high yielding accounts will have on earnings. Data on cost of funds are not available. But information on deposit flows suggests that only \$2.0 billion, or 13 percent of total MMDA balances, shifted from low-cost savings

balances. An additional \$4.2 billion may have transferred from small time deposits. But these funds include 6-month money market certificates and retail repurchase agreements, both of which are tied to market interest rates.

The S&Ls experienced a larger proportion of internal shifting from low-cost savings balances and small time deposits. But declines in demand deposits and large time deposits were reported by banks. Large banks, in particular, view MMDAs as important substitutes for wholesale time deposits. Introductory rates on MMDAs exceeded those paid on large CDs by noticeable margins. Banks have recently reduced rates on MMDAs to levels at or below those on large CDs. But many S&Ls still are offering higher yields on MMDAs than on jumbo CDs.

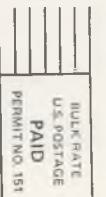
Implications

Strong preferences for MMDAs have

been revealed by financial institutions and their customers. In time, these savings accounts may become the main source of funds for small and medium-sized depository institutions. Increased reliance on variable-rate funding sources has induced banks and S&Ls to extend additional variable-rate loans. Most institutions are pricing the new ceiling-free accounts with the flexibility to change rates daily. This could increase further the imbalance between interest-sensitive assets and liabilities at many institutions. To offset this, S&Ls have boosted variable-rate commercial lending, particularly wholesale construction loans. Efforts to develop variable-rate consumer loan products also have increased. Hence, the new money market accounts are having important implications on both asset and liability pricing decisions and product development.

—Genie Short

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