Currency shipments show economic upturn in Houston

Increased currency shipments through the Houston Branch of the Federal Reserve Bank of Dallas suggest local retailers will have a somewhat merrier Christmas in 1988 compared to recent years. Moreover, higher demand for currency reflects steady improvement in Houston economic conditions.

Currency shipments out of the Houston Branch totaled $307 million in November. This is 24 percent ahead of currency levels shipped out during this same time last year. This increase combined with the seasonal increase experienced each December indicate that local consumers are gearing up for the holiday buying season.

The upturn in currency shipments through the Houston Branch reverses a slowdown that mirrored recessed economic activity through much of the 1980s. Net currency shipments — which is defined as currency shipped to commercial banks less currency received from commercial banks at the Houston Branch — peaked in 1983 at $568 million. These shipments then fell to a low of $394 million in 1985. This reflected the slumping public demand for currency as the recession spread through the local economy.

As a result of the weak economy, the unemployment rate rose in Houston from 4.0 percent in 1981 to 10.2 percent in 1986. This represents a 6.1 percent drop in total employment from 1982 to 1986. This job loss translated into a dramatic slowdown in personal income. The failure to maintain income growth stalled spending and depressed the demand for currency.

Reduced inflation also contributed to the lower demand for currency. The Houston consumer price index slowed from a 12.5 percent rise in 1980 to a 1.0 percent decline in 1986. Smaller price increases helped hold down the quantity of currency outstanding, and smaller wage increases dampened income growth and household cash needs.

Renewed currency demands reflect the slow improvement in economic conditions over the past two years. Employment has grown modestly, and the unemployment rate has dropped to 6.2 percent. Moreover, consumer prices in Houston are rising again at a modest 3 percent annual rate.

These factors indicate that the increased demand for currency is another confirmation of improving economic conditions in Houston.
ATMs No Longer Need New Bills

The proliferation of automatic teller machines (ATMs) and vending machines that accept currency has increased consumer cash demands because they improve access to cash.

At first these machines required crisp new bills to operate satisfactorily which required that a greater amount of new currency be put into circulation. As a result, in the early 1980s, half of the currency shipped from the Houston Branch of the Federal Reserve Bank of Dallas consisted of new bills.

However, with improved engineering, most ATMs and vending machines now accept bills that have been in circulation a while. These bills are of “less quality” than new bills. Those improvements have helped reduce the amount of new currency required from the Houston Branch. Currently, only one in four bills shipped from the Houston Branch is a new bill.

The reduction of the amount of new currency put into circulation also reflects changes in the operating procedures of the Federal Reserve System. It is expensive to issue new notes, so procedures were tightened to keep currency in circulation longer. This has reduced the cost of currency.

This tightening of currency procedures does not mean that “unfit” bills are circulated. Lesser quality bills are removed from circulation long before they would be rejected from an ATM. As a result, the overall quality of circulated currency remains high without requiring an inordinate amount of new currency to be put into circulation.

Currency Demand Is Highly Seasonal

The demand for currency is highly seasonal. Consumers typically use more currency for transactions during the holidays as opposed to holding their assets in demand deposits or investment instruments.

Christmas is the biggest retail period of the year raising currency demands to a seasonal peak. This peak usually increases to more than 7 percent over the average annual growth rate at the Houston Branch of the Federal Reserve Bank of Dallas.

The seasonal rise in currency shipments begins in November. Financial institutions increase their inventories of currency from the Federal Reserve System in order to satisfy the year-end currency demands of their customers. The outflow continues until Christmas when the demand quickly diminishes.

Holiday cash sales are deposited at financial institutions increasing their inventories. These institutions then return excess currency to the Federal Reserve. The entire process is completed in January.

Financial Industry Woes Affect Currency Demand

Widespread problems in the Texas financial industry have further changed the pattern of currency distribution at the Houston Branch of the Federal Reserve Bank of Dallas. Reorganization of major financial institutions has altered traditional correspondent banking relationships and has fragmented old correspondent networks.

As a result of this realignment of banking relationships, many small financial institutions no longer rely on large correspondent banks to supply their currency as they did in the past. Therefore, the Houston Branch is making a larger number of shipments to individual banks, but the total value of currency being shipped has not been altered.