ELEVENTH FEDERAL RESERVE DISTRICT

BUSINESS REVIEW

MARCH 1957
Vol. 42, No. 3

INTEREST RATES IN A DYNAMIC ECONOMY*

During the past year, economic activity, or the volume of business, has been at a record level. The year 1956 was one of full production, full employment, very high-level distribution, and very large — in fact, record — personal incomes and consumer expenditures. Briefly stated and stripped of the economists' verbiage, 1956 was our best year as measured by virtually any standard. The past year reflected a dynamic, growing, adjusting economy in operation. Without attempting a lengthy parade of statistical evidence, a few figures will picture the pattern of business activity in 1956.

The gross national product, or the value of goods and services produced in the Nation at prevailing prices, rose from \$391 billion to \$412 billion. Industrial production, or the physical volume of goods produced, rose from 139 percent of the 1947-49 level to 143 percent. Capital expenditures by businesses for new plants and modernization rose more than 20 percent, from about \$29 billion in 1955 to \$35 billion in 1956. Inventories were accumulated at a \$3.4 billion annual rate. Employment rose to average about 65 million for the year; unemployment was comparatively steady at around 2,550,000, despite a growing labor force which at times during the year reached 69.5 million.

Total personal income rose from \$306 billion to \$325 billion, and consumer expenditures increased from \$254 billion to \$266

**An address by Watrous H. Irons, President, Federal Reserve Bank of Dallas, before the Mid-Winter Conference, Louisiana Bankers Association, Baton Rouge, Louisiana, on January 28, 1957.*

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS

billion. Take-home pay of manufacturing workers rose from $76.50 to $80 per week and, in terms of real income, rose from $76.50 to $79 per week. Corporate profits rose from about $21 billion to $21.5 billion. End-of-year comparisons showed wholesale prices up from 111.3 percent to 116.2 percent (1947-49=100) and the so-called cost of living up 3 percent.

At the same time, certain adjustments were taking place in the economy. These were most notable in the automobile industry, in housing construction, in agriculture, and perhaps in textiles. Such adjustments, however, were effected smoothly, without cumulating deteriorating consequences, and were more than offset by rising strength in other segments of the economy. In fact, with expansive pressures and demand for the Nation's scarce resources as great as they proved to be in 1956, it is probably fortunate that there were some areas of resource demands and allocations of materials within the economy which were capable of adjustment. We seemed to be determined to do too much too quickly.

Even with these not inconsiderable adjustments — or "weaknesses," if they may be so termed — in the economy, total demand for the economic resources of the Nation was at an all-time high and continued to press upon the total available supply throughout the year. Despite the restrictive credit policy of the Federal Reserve System, which was continuously applied in more or less degree during 1956, there was growth and prosperity, even some inflation.

As might be expected under such circumstances, the total demand for capital funds was unusually strong and outran the available supply. Throughout the year, the equating of savings and investment posed a very real and difficult problem, which was reflected in upward pressure upon interest rates in the capital markets. Likewise, the demand for bank credit—stimulated, at times, by a diversion of demand from the capital markets — was equally strong and continued to exert pressures upon bank reserve positions and upon liquidity relationships within the banking structure.

The private money supply, while restrained in its growth by monetary and credit policy, was permitted to increase about 1 percent during the year. A more active use of the money supply, resulting from the intensity of demand factors and the very strong desire to spend for goods and services, was reflected in an increase of almost 8 percent in turnover. Although one might argue as to the precise adequacy of the money supply, it was sufficient to turn over an increased volume of goods and services at somewhat higher prices, resulting in a rise in the gross national product of about $21 billion as compared with 1955. In other words, the degree of restriction in monetary and credit policy may have restrained expansion in the economy, but it did not stop it; also, it may have restrained inflation, but it did not wholly stop it.

The persistent, and at times surging, strength of total demand during 1956 under conditions of full production, full employment, and very high-level consumption fully justified a restrictive monetary and credit policy on the part of the central banking system. Also, with total demand for the Nation's output very large, upward pressures upon interest rates could not have been avoided without encouraging and stimulating even greater inflationary pressures than those which actually prevailed during the year. Unquestionably, there could have been an easier monetary and credit policy effected during 1956, but would it have contributed to a larger volume of goods and services in the aggregate, or would it simply have contributed to more inflation?

Conservative, but flexible, use of open market operations by the Federal Reserve System, together with the use of the discount privilege by member banks, provided the banking system with adequate reserves to meet the essential and sustainable credit requirements of an expanding economy. During the year, total Federal Reserve credit outstanding was permitted to increase moderately; System holdings of United States Government securities rose about $130 million; and total reserves of member banks increased. In other words, the restrictive credit policy did not result in reducing the amount of bank reserves or Reserve bank credit outstanding; however, it did restrain the growth of bank reserves so that the total volume of available credit was somewhat less than businesses, consumers, and governmental units desired to borrow.

Flexible administration of credit policy during the year enabled the banks to meet seasonal requirements — as well as noninflationary, sustainable growth requirements — for credit smoothly and without the development of unmanageably tight conditions in the market. For instance, around midyear, in anticipation of seasonal tax borrowing and July 4 holiday currency demands, the System increased its holdings of Governments, and total central bank credit rose. During the last half of July and early August, however, as such seasonal demands passed, holdings of Governments were reduced, as was outstanding Reserve bank credit. Again, during the last quarter of the year, additional reserves were provided member banks to assist them in meeting the expected seasonal requirements without creating "binds," or undesirably tight situations, in the market. Nevertheless, such flexible administration of credit policy to meet day-to-day and week-to-week developments was not permitted to obscure or to modify the basic policy consideration, namely, the restraint of inflationary pressures.

The use of the discount privilege by member banks also was an important instrument in the implementation of the System's credit policy. By resort to this means, individual member banks were able to adjust their reserve positions to meet short-term, temporary, and unanticipated situations arising from such developments as deposit shifts, unanticipated seasonal requirements, or seasonal requirements for credit beyond those which could reasonably be met by use of a bank's own resources.

While open market operations tend to provide reserve funds to the market without direct regard for the needs of a particular bank, the discount privilege is designed to enable the System to meet the needs of an individual bank. Of course, in the former instance, the reserves gradually filter down through the market to individual banks; whereas, in the latter instance, the reserves tend to move from the borrowing bank to another and another, and so on through the market. The impact of application is somewhat different, and both instruments must be considered in administering and implementing credit policy. Each instrument complements the other.

Disregarding year-end window-dressing movements, the total amount of discounts by member banks varied from a high range of $1 billion to $1.2 billion, to a low range of $300 million to $400 million. Moreover, since member banks usually borrow from their Reserve banks only when their reserve positions are under some pressure, the amount of discounting tended to rise as open market operations became more restrictive and to decline as increased holdings of Government securities by the System placed additional funds in the market. Throughout the year, however, discounting at the Reserve banks was substantial in the aggregate, as a changing group of member banks resorted to this means temporarily to meet reserve deficiencies and pressures, which were an outgrowth of unprecedented credit demand, a shortage of savings, and the restrictive credit policy.

In April, when demand pressures were very strong and discounting by member banks rose above $1 billion, discount rates were raised to 2¾ percent by 10 of the Federal Reserve banks and to 3 percent by the Minneapolis and San Francisco banks. Later, in August, the Reserve banks whose rates had been fixed at 2¾ percent raised their rates to 3 percent, giving uniformity at that level. These discount rate changes in April and August did not lead the market, although the 3-percent rate established in April by two Reserve banks probably was interpreted by the market to indicate the willingness of the Board of Governors to approve a 3-percent rate for any other Reserve bank. On the whole, however, these rates of discount tended to confirm the higher rate structure which had developed in the market in the preceding weeks.

Turning now from a consideration of the very strong economic background that prompted the policy of credit restriction and that stimulated the increase in interest rates, we should focus attention a bit more pointedly on the subject of interest rates. Interest is nothing more than a price, although a very pervasive and important one. It is the price for money that is agreed upon in the market by borrowers and lenders of funds.

When a corporation offers its bonds in the market, lenders bid for those securities at a price, and that price is influenced significantly by the alternative opportunities open to the lenders. Also, the price will be influenced directly by the availability of funds in relation to the demand for funds. As borrowers attempt to acquire more funds than are currently available, either in the capital markets or through the banking system, interest rates will rise, and other lending terms will become more restrictive. Also, lenders will have more numerous alternative opportunities for the use of the available funds.

If, with our corporate offering, the bid price and terms are acceptable to the borrower, the transaction will be consummated and the securities marketed. On the other hand, if the price — i.e., the interest rate — and terms are not acceptable to the borrower, the offering probably will be withdrawn from the market until conditions more favorable to the borrower prevail. During the past year, for example, numerous issues were offered to the market, bid upon, and withdrawn because the borrower considered the price and/or terms unacceptable.

As a market price, the rate of interest is a function of the demand for and the supply of loanable funds. In this respect, it is much like any other price. If the available supply of a commodity fails to increase apace with the demand, the price of that commodity rises in the market. Generally speaking, this is what has happened during the past year or more with respect to money and the rate of interest. It has been abundantly clear that the demand for money and capital funds during the past year by borrowers of virtually all types has been in excess of the available supply, even though the supply increased to a record level. Savings did not keep pace with the full demand for long-term capital funds. Banks were not able to accept all bankable loan applications made to them for short-term funds. Consequently, in the face of excessively large demand, the price of the available supply of funds rose; i.e., interest rates increased.

The rising level of interest rates that has occurred is attributable primarily to the enormous total demand for funds in an economy operating under conditions of full production and full employment. To a considerable extent, this demand for funds, which represented merely a means of placing the borrowers in a position to demand scarce resources, was to enable the borrowers to expand and modernize business and industrial plants and otherwise add to the volume of construction.

In the long run, plant and equipment expansion and modernization is a very effective means of combating inflationary pressures, because such investment increases the ability of the Nation's industrial system to add to the products available for purchase. In the short run, however, if there are attempts to move too rapidly in this field, inflationary pressures during the period of excessive demand may be very strong. This short-run problem arises because, during the period of construction, scarce resources are consumed while no new products reach the market. In the building of a steel plant, which may require an 18-month to 2-year period, scarce resources of many kinds are consumed, while no new steel reaches the market until the plant is completed. The problem is one of timing: deferring excessive demands temporarily and attempting to follow a course which, in the long run, will yield the maximum benefit and, in the short run, contribute to a satisfactory degree of economic stability.

It was certainly within the power of the central banking system to increase greatly the volume of bank reserves available to the banking system during the past year or more. Purchases of Government securities could have been increased substantially, the administration of discount rate policies could have been relaxed, and reserve requirements could have been lowered. Under such circumstances, bank credit would have been available in much larger amounts to business, industry, and other groups. However, it is important to recognize that such additional bank credit, if it had been made available, would have sought goods. It would have represented a demand for more steel, more building materials, more labor of one type or another, and so on through the list of basic resources that were in demand. But, our steel industry was operating at 100 percent of capacity, our labor was fully employed, and our capacity to increase production was severely limited. Additional bank credit would not have made possible, in the short run, additional steel, cement, glass, or other types of resources that were in strong demand. The consequence would have been stronger inflationary pressures.

Moreover, there is considerable doubt as to whether an easier credit policy which would not have imposed restraint would have avoided an increase in interest rates. As the demand for goods increased and the prices of those goods rose under such a policy — pushed upward by the inflationary pressures, the demand for funds for wages and salaries, other operating costs, and inventory accumulation and simply to "beat the price increase" would have mounted. Therefore, there is some question as to how long interest rates could have been maintained at artificially low levels — especially without serious inflationary consequences.

Market forces, to a very considerable extent, have been allowed to exercise their influence upon the cost of money and to allocate the available supply of money and capital funds to those who, because of their efficiency or the urgency of their demand, were willing to pay the price and meet the terms demanded by the market. In other words, the rising structure of interest rates has tended to postpone the use of capital by marginal users.

Furthermore, it may be assumed that those who are prepared to pay the higher price demanded by the market will be those who can use the funds most productively, thus tending to channel the Nation's scarce resources into the hands of the more efficient producers and economic units. Under conditions such as those prevailing during the past 2 years, when full production and full utilization of the Nation's material and labor resources have been dominant characteristics of the economy, any tendency to channel such resources into the hands of the more efficient users is certainly desirable. Efficient allocation tends to maximize the product that may be derived from a given amount of economic resources.

It has been contended that higher interest rates and general credit restriction are discriminatory in their effects, inasmuch as they react with unequal impact upon different classes of borrowers. This contention is probably true to some extent, but an acceptable alternative is not apparent. If it is agreed that a policy of restraint or restriction is in order, it necessarily follows that some borrowers must be restrained or restricted in their attempts to secure an ever-increasing amount of resources at a time when such resources are limited in supply. The question then becomes, "Who shall decide who is to be restrained?"

An impersonal, objective approach is to place that responsibility, to a considerable degree, upon market forces and the market mechanism. Certainly, allocation through the market will never be perfect, but the alternative of placing the allocative authority in the hands of a central authority may lead to less perfect or more arbitrary decisions than those of the market. Moreover, restriction undoubtedly involves a burden. Whether it be worked out through the market or by the decisions of a central authority, a restrictive policy, if it is effective, must discriminate between users and carry some burden or unfavorable impact in so far as those who are restrained are concerned.

During the past 2 years, higher interest rates have added to the cost of doing business of those borrowers who have been compelled to pay more for money or capital funds which they have obtained. Such borrowers range from the Government and largest corporations on through the list to the small businessman. Here again, however, any alternative must be considered and weighed carefully in its relation to the effect of the higher interest costs and more restrictive terms in limiting inflationary pressures.

To the extent that the restrictive credit policy has restrained inflationary pressures and has limited actual inflation, it is a much more significant gain to the average citizen than the burden of the cost of the higher interest rates. For instance, in 1956 the value of all the goods and services produced in the United States was about $412 billion at prevailing prices. If another 1-percent increase in prices had occurred, its impact through that vast volume of goods and services would have added much more to the average citizen's cost than has been added by the higher interest rates.

Moreover, most debt is contractual, and much of the outstanding debt was contracted at interest rates well below those now prevailing. For that debt, an increase in the interest rate structure is of no direct significance until the time comes to refund the debt. For example, with respect to the 2½-percent Treasury bonds of 1967-72, the rise in interest rates during the past 2 years has not added to the Government's cost of servicing these securities. The same principle would apply to any other debt instrument not maturing during the period. Only on refunding and new money issues is the Government or any other borrower faced with higher interest costs.

While it must be admitted that higher interest rates involve higher debt cost, this fact in itself does not rule out the desirability of the higher rate structure or the principle involved. The alternative under prevailing conditions must be fully considered and appraised.

In conclusion, a word of caution is worthy of note. During the past 2 years, there has been much discussion of "high interest rates," "tight money," "general credit controls," "restrictive credit policies," and related issues. Such widespread discussion is highly desirable because it tends to broaden the area of inquiry and to build a better understanding of some of these problems and developments that are of direct personal interest to each of us. In our preoccupation with and concentration on central banking policies and their effects, however, we should not overlook the significance of other major economic policies.

Emphasis on the tight money question, on interest rates, and on monetary and credit policy may tend to exaggerate the importance of central banking policies in their contribution to economic stability. There is no question that in our type of economy, money and credit policies are extremely important, but so are many other types of policies — such as wage policies, price policies, agricultural policies, fiscal policies, and so on. Perhaps the importance of central banking policies can be summed up somewhat as follows: The fact that central banking policies might be wholly sound would not guarantee stability in the Nation's economy. On the other hand, it can perhaps be said that it would be very difficult to achieve a satisfactory degree of stability without reasonably sound central banking policies.

BUSINESS REVIEW

BUSINESS, AGRICULTURAL, AND FINANCIAL CONDITIONS

DISTRICT SUMMARY

The petroleum industry experienced record production and demand during January and the first part of February. However, refinery operations were reduced in February in order to release crude oil for export to Europe. Texas allowables for March production have been increased 210,900 barrels per day.

February rains over most of the District brightened agricultural prospects. The number of cattle and calves in the District states on January 1 was 6 percent below a year earlier, and inventories of sheep and lambs were down 10 percent. Prices received by Texas farmers at mid-January were 5 percent higher than a year ago.

The January total of 4,196,100 nonagricultural workers in the District states reflected a seasonal decrease from December but was 4 percent above January 1956. Indicators of District construction activity turned upward from December to January but continued below the levels of a year earlier.

Dollar sales at Eleventh District department stores during January were 2 percent above those in the same month in 1956, primarily because of one more business day in January this year. End-of-month department store stocks in January were approximately the same as a year earlier, while orders outstanding were 1 percent lower.

At weekly reporting member banks in the District, deposit losses amounting to $244,980,000 during the 5 weeks ended February 20 were accompanied by loan and investment liquidation, increased borrowings, and reductions in cash accounts. Member bank reserve balances declined $38,829,000 during the 5 weeks. The Treasury accomplished a major refunding operation in February and, on February 14, announced that it had requested Congress to enact legislation permitting an increase in the interest rate on Series E and H savings bonds.

TRADE

The total dollar volume of retail sales at department stores in the Eleventh Federal Reserve District during January decreased more than seasonally from December but was 2 percent above that of January 1956. However, the year-to-year gain was the result of one more business day in January this year. The sales index for January, adjusted for seasonal variation and the number of business days, was 140, compared with 143 for the same month in 1956 and 150 in December.

As usual, following the heavy buying of the Christmas season, January sales in all of the major departmental groups posted substantial decreases from the previous month. The apparel groups showed the largest declines from December, while the smallest decrease occurred in the homefurnishings departments. Sales in most of the major departments reflected some gain from a year earlier.

RETAIL TRADE STATISTICS

(Percentage change)

Line of trade by area	NET SALES January 1957 from December 1956	NET SALES January 1957 from January 1956	STOCKS (End of month) January 1957 from December 1956	STOCKS (End of month) January 1957 from January 1956
DEPARTMENT STORES				
Total Eleventh District	—54	2	—2	0
Corpus Christi	—61	3	—2	11
Dallas	—52	5	—3	—7
El Paso	—55	3	0	3
Fort Worth	—59	6	5	5
Houston	—54	—2	—3	6
San Antonio	—48	—1	—4	—2
Shreveport, La.	—53	—5	1	0
Waco	—61	—7	—11	—6
Other cities	—58	5	—2	—4
FURNITURE STORES				
Total Eleventh District	—31	13	0	3
Amarillo	—11	9	—	—
Austin	—15	36	—4	2
Dallas	—39	—13	4	—5
Houston	—29	37	4	5
Lubbock	40	12	—16	—12
San Antonio	—38	—1	3	—2
Shreveport, La.	—30	10	—2	13
Wichita Falls	22	—9	—5	—3
Other cities	—45	4	—2	—4
HOUSEHOLD APPLIANCE STORES				
Total Eleventh District	—30	15	—	—
Dallas	—28	12	—	—

INDEXES OF DEPARTMENT STORE SALES AND STOCKS

(1947-49 = 100)

	SALES (Daily average)							
	Unadjusted				Seasonally adjusted			
Area	Jan. 1957	Dec. 1956	Nov. 1956	Jan. 1956	Jan. 1957	Dec. 1956	Nov. 1956	Jan. 1956
Eleventh District	111	252	166	113r	140	150	146	143r
Dallas	107	233	153	106r	134	138	133	132r
Houston	122	273	178	129	155	162	156	163
	STOCKS (End of month)							
Eleventh District	141p	144	174	140r	158p	160	156	158r

r—Revised.
p—Preliminary.

All types of department store sales showed the usual December-to-January declines. Compared with January last year, however, cash and instalment sales were up 3 percent and 11 percent, respectively; charge account sales were down 2 percent.

Charge accounts outstanding at District department stores declined seasonally during January but at the month end were slightly above a year ago. Instalment accounts outstanding decreased 1 percent from the end of 1956 and on January 31 showed a year-to-year decline for the first time since November 1954. Repayments on instalment contracts were substantially higher than a year earlier and exceeded instalment sales during January.

Department store stocks in the District at the end of January were approximately the same as a year earlier but were down 2 percent from December. Orders outstanding followed the usual pattern for this time of year, increasing 12 percent over December; however, at the end of the month, they were down 1 percent from a year ago.

New car sales during January 1957 in Dallas, Fort Worth, Houston, and San Antonio rose 15 percent over those at the same time last year to attain a record high for the month of January. Compared with December, new car sales in the four cities were up 1 percent.

AGRICULTURE

Agricultural prospects over a large part of the District have improved substantially as a result of February rains. Precipitation varying from light snow or drizzle to rains of cloudburst proportions was received in all District states during the month. The largest amounts fell eastward from a line through Wichita Falls and Sweetwater. Good rains also were received in parts of the Southern High Plains, northeastern Edwards Plateau, Big Bend, and Lower Rio Grande Valley of Texas; smaller amounts fell in the Northern High Plains of Texas and New Mexico. The snow pack in the upper Rio Grande area of northern New Mexico and southern Colorado is at near-record depths, and snowfall has been heavy on the western slope of the Continental Divide.

Field work during February generally was seasonally slow, particularly in areas where the heaviest precipitation was received. Commercial vegetables in south Texas and the Lower Valley made good development, although inadequate soil moisture delayed plantings in some south Texas areas. The rains and damp weather benefited small grains in eastern areas of the District; irrigated wheat is making good progress in western regions.

Small grains are providing good grazing in northern and northeastern counties of the District, resulting in curtailment of supplemental feeding. Forage conditions remain poor in western and northern High Plains sections, but prospects are favorable. Livestock are in good condition as a result of grazing in some areas and continued supplemental feeding in others.

LIVESTOCK ON FARMS AND RANCHES, JANUARY 1

Texas, Five Southwestern States, and United States

(In thousands)

	Texas		Five southwestern states[1]		United States	
	1957	1956	1957	1956	1957	1956
Cattle	7,736	8,501	14,863	15,879	95,166	96,804
Milk cattle	1,219	1,249	2,533	2,590	34,458	34,737
Beef cattle	6,517	7,252	12,330	13,289	60,708	62,067
Sheep	4,708	5,376	6,718	7,475	30,838	31,273
Stock sheep	4,374	5,086	6,270	6,993	26,370	27,012
Feeders	334	290	448	482	4,468	4,261
Hogs	946	1,100	1,921	2,107	52,207	55,173
Goats	2,835	2,700	n.a.	n.a.	n.a.	n.a.
Horses and mules	255	283	589	645	3,558	3,928
Chickens[2]	16,859	15,335	27,762	25,843	392,811	382,846
Turkeys	431	375	577	510	5,745	4,923

[1] Arizona, Louisiana, New Mexico, Oklahoma, and Texas.
[2] Does not include commercial broilers.
n.a.—Not available.
SOURCE: United States Department of Agriculture.

The number of all cattle and calves on farms and ranches in the Nation decreased 2 percent during 1956 to a total of 95,166,000 on January 1, 1957. Inventories of cattle and calves in the District states, at 14,863,000, were 6 percent below the year-earlier level, with practically all of the decline occurring in beef cattle. The number of all sheep and lambs declined 10 percent to 6,718,000. In line with national trends, decreases occurred in inventory numbers for hogs and horses and mules, and increases were noted for chickens and turkeys.

The index of prices received by Texas farmers and ranchers rose 2 percent during the month ended January 15, 1957, and, at 259 percent of the 1910-14 average, was 5 percent higher than a year earlier. The increase from the mid-December level resulted from a rise in the livestock and livestock products index as the all-crops index was unchanged.

Cash receipts from farm marketings in the District states during January-November 1956 amounted to $2,867,689,000, or 1 percent above those in the same months a year earlier. Receipts from both crops and livestock and livestock products were up 1 percent. For the first 11 months of 1956, cash receipts in all of the District states except Texas were above the comparable period in 1955; receipts in Texas were 3 percent lower.

The 1957 national average minimum price supports on many important agricultural commodities have been reduced from the 1956 levels. Price support levels for 1957 (and for 1956) for the various commodities are as follows: Cotton, 28.15 cents per pound (29.34 cents in 1956); cottonseed, $46 per ton ($48); flaxseed, $2.92 per bushel ($3.09); oats, 60 cents per bushel (65 cents); barley, 94 cents per bushel ($1.02); rye, $1.15 per bushel ($1.27); and grain sorghums, $1.83 per hundredweight ($1.97). Price supports for milk for manufacturing purposes, at $3.25 per hundredweight, and for butterfat, at 58.6 cents per pound, were unchanged from a year earlier.

CONDITION STATISTICS OF WEEKLY REPORTING MEMBER BANKS IN LEADING CITIES

Eleventh Federal Reserve District

(In thousands of dollars)

Item	Feb. 20, 1957	Jan. 16, 1957	Feb. 22, 1956
ASSETS			
Commercial and industrial loans	$1,460,722	$1,505,804	$1,473,569
Agricultural loans	24,281	25,547	44,996
Loans to brokers and dealers in securities	29,566	28,862	20,644
Other loans for purchasing or carrying securities	143,873	143,229	128,879
Real-estate loans	193,367	199,322	207,417
Loans to banks	10,960	14,746	10,223
All other loans	576,651	579,819	557,736
Gross loans	2,439,420	2,497,329	2,443,464
Less reserves and unallocated charge-offs	41,639	41,428	30,853
Net loans	2,397,781	2,455,901	2,412,611
U. S. Treasury bills	63,052	85,645	39,106
U. S. Treasury certificates of indebtedness	48,125	62,026	40,023
U. S. Treasury notes	190,371	201,175	240,831
U. S. Government bonds (inc. gtd. obligations)	803,687	804,905	816,568
Other securities	246,742	241,078	244,878
Total investments	1,351,977	1,394,829	1,381,406
Cash items in process of collection	424,199	457,865	366,932
Balances with banks in the United States	443,534	494,185	470,110
Balances with banks in foreign countries	1,641	1,817	1,770
Currency and coin	45,831	46,912	46,442
Reserves with Federal Reserve Bank	553,474	570,167	534,915
Other assets	177,804	195,679	141,319
TOTAL ASSETS	5,396,241	5,617,355	5,355,505
LIABILITIES AND CAPITAL			
Demand deposits			
Individuals, partnerships, and corporations	2,768,099	2,917,033	2,799,644
United States Government	49,264	22,979	62,768
States and political subdivisions	186,266	206,607	188,705
Banks in the United States	848,085	961,045	822,893
Banks in foreign countries	17,712	16,369	16,335
Certified and officers' checks, etc.	64,628	61,005	56,034
Total demand deposits	3,934,054	4,185,038	3,946,379
Time deposits			
Individuals, partnerships, and corporations	736,494	733,922	716,112
United States Government	12,345	12,335	12,079
Postal savings	421	452	452
States and political subdivisions	133,953	130,500	134,056
Banks in the U. S. and foreign countries	6,955	6,955	1,955
Total time deposits	890,168	884,164	864,654
Total deposits	4,824,222	5,069,202	4,811,033
Bills payable, rediscounts, etc.	41,491	8,500	69,700
All other liabilities	90,808	106,860	62,734
Total capital accounts	439,720	432,793	412,038
TOTAL LIABILITIES AND CAPITAL	5,396,241	5,617,355	5,355,505

To meet deposit losses amounting to $244,980,000 in the 5 weeks ended February 20, weekly reporting member banks in the District reduced their loan accounts, liquidated investment holdings, reduced cash accounts, and increased borrowings. The decline in deposits was more than accounted for by demand deposit decreases, principally of banks and of individuals and businesses.

Gross loan accounts declined $57,909,000 during the 5 weeks, reflecting substantial repayments by commercial and industrial borrowers, who reduced their bank indebtedness by $45,082,000. Agricultural loans, loans to banks, real-estate loans, and "all other loans" —principally consumer loans—declined by much smaller amounts. Loans to finance securities transactions showed the only gain, rising $1,348,000. The reduction in gross loans during this period was moderately above the decline which occurred in the comparable weeks of 1956.

In addition to the loan liquidation during the 5 weeks, reporting banks obtained funds from the net sale and redemption of $48,516,000 of Government securities, partially offset by the $5,664,000 increase in holdings of non-Government investments. Declines in Treasury bill accounts amounted to slightly more than one-half of the total reduction in investments, and holdings of Treasury certificates of indebtednesss and notes also showed substantial reductions. The decrease in Government bonds, however, was modest.

To meet depositors' claims, reporting banks supplemented the funds from loan and investment liquidation with proceeds from borrowings and reductions in cash accounts. Cash accounts declined $102,267,000, while borrowings rose $32,991,000.

A $121,906,000 excess of payments over receipts in connection with interdistrict commercial and financial transactions created a reserve drain which was only partially offset by changes in other factors during the 5 weeks ended February 20. Treasury operations, currency transactions, and expansion of local Federal Reserve credit added reserve funds; gains from these sources were supplemented by minor reserve contributions from changes in other deposits at the Federal Reserve Bank and other Federal Reserve accounts. Reflecting all of these changes, member bank reserve balances declined $38,829,000 between January 16 and February 20.

MEMBER BANK RESERVE BALANCES AND CHANGES IN RELATED FACTORS

Eleventh Federal Reserve District

(In thousands of dollars)

Factor	CHANGE[1] 5 weeks ended Feb. 20, 1957	CHANGE[1] Dec. 26, 1956— Feb. 20, 1957
Federal Reserve credit—local	+$ 21,009	—$ 10,415
Interdistrict commercial and financial transactions	— 121,906	— 189,713
Treasury operations	+ 35,248	+ 135,065
Currency transactions	+ 26,275	+ 72,145
Other deposits at Federal Reserve Bank	+ 181	+ 1,077
Other Federal Reserve accounts	+ 364	+ 4,760
Net change	—$ 38,829	+$ 12,919
	Feb. 20, 1957	Jan. 16, 1957
RESERVE BALANCES	$965,825	$1,004,654

[1] Sign of change indicates effect on reserve balances.

CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(In thousands of dollars)

Item	Feb. 20, 1957	Jan. 16, 1957	Feb. 22, 1956
Total gold certificate reserves	$696,214	$ 719,995	$740,102
Discounts for member banks	18,991	1,700	44,400
Other discounts and advances	1,300	1,300	0
U. S. Government securities	909,507	959,488	935,830
Total earning assets	929,798	962,488	980,230
Member bank reserve deposits	965,825	1,004,654	943,501
Federal Reserve notes in actual circulation	683,905	708,918	683,352

Largely reflecting System sales of Government securities in the open market, earning assets of the Federal Reserve Bank of Dallas declined $32,690,000 in the 5 weeks ended February 20. The Bank's holdings of Government securities decreased an even larger amount, but discounts for member banks rose. Gold certificate reserves declined $23,781,000, reflecting the District's loss of reserves through interdistrict clearings. Seasonal return flows of currency reduced the Bank's Federal Reserve notes in actual circulation by $25,013,000 between January 16 and February 20, bringing the amount in circulation to approximately the same level which prevailed a year ago.

On February 14 the Treasury announced that it had requested Congress to enact legislation which will permit an increase from 3 percent to 3¼ percent in the interest rate on all Series E and H savings bonds sold on or after February 1, 1957.

Treasury financing during February included the offering of a 3⅜-percent Treasury certificate of indebtedness due February 14, 1958, and a 3½-percent Treasury note due May 15, 1960, in exchange for the $7,219,000,000 of 2⅝-percent certificates of indebtedness which matured February 15 and the $2,997,000,000 of 2⅞-percent Treasury notes due March 15. The certificate offering also was open to holders of $531 million of the 1½-percent Treasury notes of Series EA-1957 which mature April 1. Subscriptions for the new issues amounted to $9,867,000,000, leaving $880 million of the maturing issues for cash redemption. The Treasury also refunded the special issue of Treasury bills which matured February 15 with $1,750,000,000 of 129-day Tax Anticipation bills due June 24. In addition to these refunding operations, the Treasury increased the amount of its weekly bill offerings.

Activity in the Nation's oil industry during January and early February featured record levels of production and consumption but cutbacks in refinery operations. District crude oil production in the first part of February, at 3,508,000 barrels per day, was 2 percent above the January level; national production showed a similar increase. A further rise appears likely, as Texas allowables — already at a new peak — have been increased 210,900 barrels per day for March.

The supply from abroad also continued at a high level, with total imports averaging 1,396,000 barrels daily in the 5 weeks ended February 8, or 5 percent above a year earlier. However, total supply was inadequate to satisfy both domestic and foreign demands for oil. Increased exports and severely cold weather caused a 10-percent rise in demand for the major refined products during this same 5-week period.

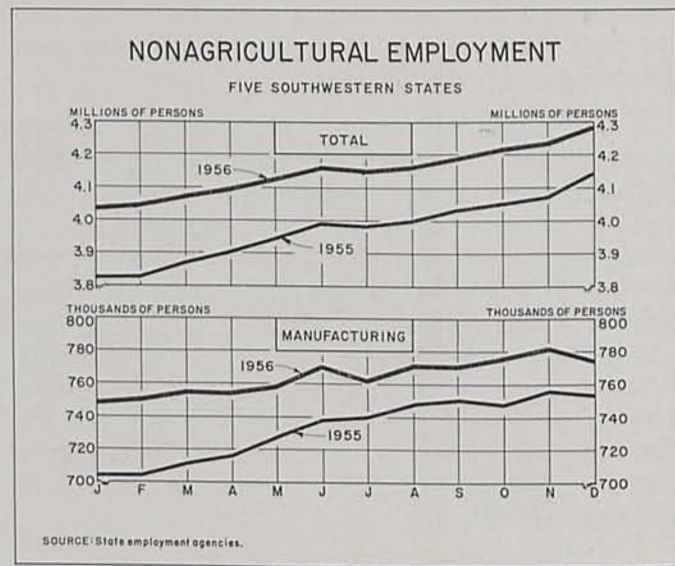
Exports to Europe may show some increase as a result of changes in refinery activity. Several oil companies have announced plans to reduce crude runs to refinery stills in order to release crude oil for export. Shipments of oil to Europe between November 1 and February 6 averaged 471,000 barrels per day, of which 245,000 barrels daily were crude oil. Shipments had declined from a late-November peak of 944,000 barrels per day to a mid-January low of 275,000 barrels daily but then recovered to 454,000 barrels per day at the end of January.

The demand for heating oil from both foreign and domestic sources maintained refinery activity at a high level during January and early February. District crude runs averaged 2,405,000 barrels per day during the first 8 days of February, which is virtually the same as in the previous month. National refinery activity declined slightly from the January level, reflecting the initial impact of the cutbacks scheduled for February. Crude oil stocks declined to 250,927,000 barrels on February 9 — or 1 percent below a year earlier, with stocks of District origin 9 percent lower. Similarly, kerosene and distillate and residual fuel oil stocks showed sharp declines between December 28 and February 8. Nevertheless, with a high level of refinery activity, gasoline stocks increased 8 percent to a record level of 199,895,000 barrels in early February.

Nonagricultural employment in the District states declined seasonally from a record 4,285,000 workers in December to 4,196,100 in January. Release of temporary workers at Post Offices and in the trades accounted for most of the change. Manufacturing employment continued to decline moderately from its record November level, and construction employment decreased seasonally. Compared with a year earlier, January employment reflected a gain of 157,800.

Unemployment in Texas reached 143,300 in January, compared with 125,800 in December and 136,000 a year ago. January unemployment equaled 4.6 percent of the nonagricultural labor force—the same as in January 1956.

The value of construction contract awards in Texas increased from December to January but continued below the level of a year earlier. Residential awards also showed a gain from December and a decline from January 1956. The total value of building permits in 17 District cities increased 71 percent over December and 11 percent over a year ago, but a large part of these increases reflected annexations by the city of Houston



on December 31. The value of building permits in the other 16 cities rose 30 percent from December but was 19 percent below January 1956—a pattern of change similar to that shown by Texas construction awards.

A decline in retail lumber sales has accompanied the downward trend in residential building. In December, sales in the West South Central States (Arkansas, Louisiana, Oklahoma, and Texas) were 24 percent below November and 23 percent below a year earlier. For the Nation, December lumber sales showed decreases of 19 percent from the preceding month and 6 percent from a year ago.

Industrial developments during recent weeks included the sale of the Government tin smelter at Texas City to private operators, the opening of an 800-acre industrial center at Abilene, the addition of 15 million pounds per year to the capacity of a polyethylene plant at Longview, start of a new plastics plant at Nacogdoches, and the announcement of a proposed electronics plant at Tucson, Arizona.

Recent large gains in the number of young people indicate a significant expansion in the market potentials of the Southwest and the Nation. The number of children under 18 years of age in the five southwestern states totaled 5,790,000 in 1955, reflecting an increase of 19 percent over 1950—or the same rate of gain as in the Nation. Total civilian population rose 11 percent in the region and 8 percent in the Nation. The recent upward trend in births continued in 1956, with increases over 1955 of 4 percent in the Southwest and 3 percent in the country as a whole.

NEW PAR BANKS

The Springhill Bank & Trust Company, Springhill, Louisiana, an insured, nonmember bank, and its branch at Cullen, Louisiana, located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, was added to the Par List on February 1, 1957. The officers are: J. M. Browning, President (inactive); J. E. Shultz, Executive Vice President; G. I. Reynolds, Vice President (inactive); H. E. Waters, Vice President and Cashier; Tommy Taylor, Assistant Vice President; E. V. Crews, Assistant Cashier; C. C. Houston, Assistant Cashier; and H. Ray Lewis, Assistant Cashier.

The Citizens Bank & Trust Company, Springhill, Louisiana, an insured, nonmember bank located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, was added to the Par List on February 15, 1957. The officers are: Charles McConnell, Chairman of the Board; Weyman H. Oden, President; Melvin Anthony, Vice President; Paul Offutt, Executive Vice President and Cashier; Mrs. Lucille Wilks, Assistant Cashier; and Dennis Nelson, Assistant Cashier.

The Bowie County State Bank, Hooks, Texas, an insured, nonmember bank located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, was added to the Par List on its opening date, February 16, 1957. The officers are: A. L. Geer, President; L. H. Griffin, Vice President and Cashier; and Edwin E. Hayes, Assistant Cashier.

NONAGRICULTURAL EMPLOYMENT

Five Southwestern States[1]

Type of employment	Number of persons			Percent change Jan. 1956 from	
	January 1957e	December 1956	January 1956r	Dec. 1956	Jan. 1956
Total nonagricultural wage and salary workers	4,196,100	4,285,000	4,038,300	—2.1	3.9
Manufacturing	771,200	776,800	748,400	—.7	3.0
Nonmanufacturing	3,424,900	3,508,200	3,289,900	—2.4	4.1
Mining	260,700	260,200	252,400	.2	3.3
Construction	289,800	296,600	275,300	—2.3	5.3
Transportation and public utilities	400,800	406,400	398,400	—1.4	.6
Trade	1,085,500	1,140,200	1,041,600	—4.8	4.2
Finance	177,000	177,400	168,500	—.2	5.0
Service	489,800	493,600	472,600	—.8	3.6
Government	721,300	733,800	681,100	—1.7	5.9

[1] Arizona, Louisiana, New Mexico, Oklahoma, and Texas.
e—Estimated.
r—Revised.
SOURCES: State employment agencies.
Federal Reserve Bank of Dallas.

BUILDING PERMITS

Area	NUMBER	VALUATION (Dollar amounts in thousands)		
			Percentage change	
			January 1957 from	
	January 1957	January 1957	December 1956	January 1956
ARIZONA				
Tucson	298	$ 1,038	—1	17
LOUISIANA				
Shreveport	396	1,267	—53	—52
TEXAS				
Abilene	106	887	88	—51
Amarillo	168	3,730	44	108
Austin	213	5,586	119	56
Beaumont	339	1,347	150	—58
Corpus Christi	330	1,714	56	—7
Dallas	1,525	8,788	10	—64
El Paso	317	1,768	—2	—37
Fort Worth	474	6,783	55	189
Galveston	110	133	—84	—65
Houston	1,617	28,326	233	179
Lubbock	261	4,750	143	196
Port Arthur	143	477	72	36
San Antonio	1,385	4,836	2	—22
Waco	187	485	—42	—54
Wichita Falls	97	1,050	123	66
Total—17 cities	7,966	$72,965	71	11

TOTAL NONAGRICULTURAL AND MANUFACTURING EMPLOYMENT

Five Southwestern States

(Averages of monthly figures)

Area	Nonagricultural			Manufacturing		
	1956	1955	Percent increase	1956	1955	Percent change
Arizona	242,900	221,000	9.9	35,700	31,300	14.1
Louisiana	726,800	705,100	3.1	146,400	149,000	—2.3
New Mexico	193,600	181,600	6.6	19,400	18,100	7.1
Oklahoma	572,800	559,800	2.3	90,800	87,900	3.3
Texas	2,412,200	2,302,700	4.8	471,900	446,400	5.7
Total	4,148,300	3,970,200	4.5	764,200	732,700	4.3

SOURCE: State employment agencies.

TEXAS SULFUR PRODUCTION

(Long tons)

Period	1956	1955	Percentage change
First quarter	1,053,238	871,456	21
Second quarter	1,055,187	871,969	21
Third quarter	1,104,067	974,596	13
Fourth quarter	1,035,231p	1,073,429	—4
Total	4,247,723p	3,791,450	12

p—Preliminary.
SOURCE: Comptroller's Department, The State of Texas.

CRUDE OIL: DAILY AVERAGE PRODUCTION

(In thousands of barrels)

Area	January 1957[1]	December 1956[1]	January 1956[2]	Change from	
				December 1956	January 1956
ELEVENTH DISTRICT	3,455.5	3,431.7	3,446.4	23.8	9.1
Texas	3,077.8	3,058.8	3,077.4	19.0	.4
Gulf Coast	613.8	611.2	644.5	2.6	—30.7
West Texas	1,315.3	1,300.3	1,232.4	15.0	82.9
East Texas (proper)	207.0	213.5	222.3	—6.5	—15.3
Panhandle	101.7	105.9	100.8	—4.2	.9
Rest of State	840.0	827.9	877.4	12.1	—37.4
Southeastern New Mexico	246.4	241.6	244.5	4.8	1.9
Northern Louisiana	131.3	131.2	124.5	.1	6.8
OUTSIDE ELEVENTH DISTRICT	3,956.0	3,942.1	3,752.3	13.9	203.7
UNITED STATES	7,411.5	7,373.8	7,198.7	37.7	212.8

SOURCES: [1] Estimated from American Petroleum Institute weekly reports.
[2] United States Bureau of Mines.

CONDITION STATISTICS OF ALL MEMBER BANKS

Eleventh Federal Reserve District

(In millions of dollars)

Item	Jan. 30, 1957	Dec. 26, 1956	Jan. 25, 1956
ASSETS			
Loans and discounts	$3,907	$3,985	$3,930
United States Government obligations	2,404	2,444	2,357
Other securities	614	610	567
Reserves with Federal Reserve Bank	968	943	963
Cash in vault[e]	130	159	141
Balances with banks in the United States	931	1,193	1,003
Balances with banks in foreign countries[e]	2	2	3
Cash items in process of collection	401	481	446
Other assets[e]	254	258	198
TOTAL ASSETS[e]	9,611	10,075	9,608
LIABILITIES AND CAPITAL			
Demand deposits of banks	973	1,172	1,052
Other demand deposits	6,304	6,590	6,424
Time deposits	1,439	1,399	1,317
Total deposits	8,716	9,161	8,793
Borrowings[e]	41	24	48
Other liabilities[e]	110	132	80
Total capital accounts[e]	744	758	687
TOTAL LIABILITIES AND CAPITAL[e]	9,611	10,075	9,608

e—Estimated.

RESERVE POSITIONS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. In thousands of dollars)

Item	January 1957	December 1956	January 1956
RESERVE CITY BANKS			
Reserve balances	$ 560,213	$ 570,760	$ 568,387
Required reserves	554,805	557,801	558,363
Excess reserves	5,408	12,959	10,024
Borrowings	8,642	28,647	41,619
Free reserves	—3,234	—15,688	—31,595
COUNTRY BANKS			
Reserve balances	470,296	464,040	466,089
Required reserves	415,787	413,644	409,315
Excess reserves	54,509	50,396	56,774
Borrowings	829	2,752	1,918
Free reserves	53,680	47,644	54,856
MEMBER BANKS			
Reserve balances	1,030,509	1,034,800	1,034,476
Required reserves	970,592	971,445	967,678
Excess reserves	59,917	63,355	66,798
Borrowings	9,471	31,399	43,537
Free reserves	50,446	31,956	23,261

INDEXES OF PRICES RECEIVED BY TEXAS FARMERS AND RANCHERS

(1910-14 = 100)

	All farm commodities		Crops		Livestock and livestock products	
Month	1956	1955	1956	1955	1956	1955
January	246	262	230	251	267	276
February	249	270	233	256	271	288
March	247	266	234	253	264	283
April	250	267	238	255	265	283
May	252	260	239	255	269	267
June	252	263	252	253	253	275
July	255	257	257	251	253	266
August	250	257	249	249	252	268
September	248	254	243	243	255	268
October	246	253	250	238	242	273
November	251	250	252	242	250	262
December	253	247	251	236	256	262
Average	250	259	244	249	258	273

SOURCE: United States Department of Agriculture.

BANK DEBITS, END-OF-MONTH DEPOSITS AND ANNUAL RATE OF TURNOVER OF DEPOSITS

(Dollar amounts in thousands)

	Debits to demand deposit accounts[1]			Demand deposits[1]			
		Percentage change from			Annual rate of turnover		
Area	January 1957	Dec. 1956	Jan. 1956	January 31, 1957	Jan. 1957	Dec. 1956	Jan. 1956
ARIZONA							
Tucson	$ 185,599	10	11	$ 102,956	21.0	19.2	19.1
LOUISIANA							
Monroe	80,381	14	12	55,267	16.4	14.6	16.3
Shreveport	279,353	2	2	191,987	17.2	16.7	16.9
NEW MEXICO							
Roswell	34,109	12	11	29,850	13.4	11.9	13.1
TEXAS							
Abilene	79,464	2	4	62,852	14.9	14.8	15.2
Amarillo	180,734	0	12	106,849	19.8	19.6	17.5
Austin	172,265	18	15	111,664	17.8	15.2	15.4
Beaumont	153,770	12	8	111,385	16.0	14.4	15.1
Corpus Christi	200,061	11	13	112,526	21.0	18.7	19.8
Corsicana	17,089	1	2	23,193	9.0	9.1	9.1
Dallas	2,585,576	5	11	979,604	29.5	28.3	27.0
El Paso	277,539	—7	13	141,000	23.2	24.7	22.0
Fort Worth	778,359	3	10	369,766	25.0	23.4	23.3
Galveston	97,631	—3	17	73,090	15.6	16.2	14.3
Houston	2,540,573	1	15	1,239,705	23.9	23.9	21.1
Laredo	24,746	—2	13	19,608	15.1	15.2	13.6
Lubbock	185,023	8	16	111,300	19.0	18.0	18.7
Port Arthur	62,703	0	10	44,952	16.9	16.7	15.5
San Angelo	47,186	3	5	45,903	12.2	11.8	11.6
San Antonio	536,230	4	8	339,480	18.5	17.3	17.2
Texarkana[2]	21,736	8	12	16,273	15.6	14.0	12.8
Tyler	86,941	4	9	60,144	16.7	15.7	16.0
Waco	100,781	11	11	67,218	17.5	15.7	15.6
Wichita Falls	106,201	2	7	102,065	12.0	11.8	10.8
Total—24 cities	$8,834,050	3	12	$4,518,637	22.7	21.8	20.6

[1] Deposits of individuals, partnerships, and corporations and of states and political subdivisions.

[2] These figures include only one bank in Texarkana, Texas. Total debits for all banks in Texarkana, Texas-Arkansas, including two banks located in the Eighth District, amounted to $42,414,000 for the month of January 1957

TOTAL WELL COMPLETIONS

Eleventh Federal Reserve District

Month	1956	1955	Percentage change
January	2,114	1,776	19.0
February	1,992	1,684	18.3
March	1,946	2,051	—5.1
April	2,107	1,972	6.8
May	2,402	2,087	15.1
June	2,105	2,182	—3.5
July	2,211	2,036	8.6
August	2,397	2,123	12.9
September	1,872	2,074	—9.7
October	2,095	1,855	12.9
November	2,038	1,953	4.4
December	1,846	1,922	—4.0
Total	25,125	23,715	5.9

SOURCE: *The Oil and Gas Journal.*

HARVESTED ACREAGE OF PRINCIPAL CROPS

Five Southwestern States

(In thousands of acres)

Area	1956	1955	1954	Average 1944–53
Arizona	1,138	1,194	1,251	987
Louisiana	2,680	2,876	2,830	3,205
New Mexico	1,114	1,356	1,300	1,531
Oklahoma	9,430	9,263	10,317	12,174
Texas	21,398	23,903	25,775	26,487
Total	35,760	38,592	41,473	44,384

SOURCE: United States Department of Agriculture.