



BUSINESS REVIEW

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BANK LENDING TO SMALL BUSINESS IN THE ELEVENTH DISTRICT

As part of a System-wide study to obtain information on bank policies and attitudes with respect to small-business loans, the Federal Reserve Bank of Dallas conducted, in the fall of 1957, an extensive survey of bank practices and policies with respect to lending operations involving small-business borrowers. The information obtained in the Eleventh District, along with that gathered in other Federal Reserve districts, was used in the preparation of a summary report to the Committees on Banking and Currency and the Select Committees on Small Business of the United States Congress. In the Eleventh District, the survey sample included 68 commercial banks selected to represent all geographic regions in the District and cities and towns of all sizes.

Attitudes Toward Small-Business Loans

Most of the problems experienced by individual small businesses affect their credit needs and have an impact, in some degree, upon their credit standing. By virtue of their daily contact with these problems, commercial bankers in the District are aware of the difficulties and problems encountered by small-business firms. With respect to lending to such businesses, however, commercial bank lending policies are subject to certain limitations imposed by the nature of a bank's obligations.

First, a bank is obligated to its depositors for the safety and liquidity of their funds. Thus, the quality of a bank's assets must be reasonably high, and a considerable portion of these assets

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS

must be readily convertible into cash to meet seasonal and unexpected deposit withdrawals. Second, a commercial bank has a responsibility to its stockholders for the safety of their investment and for a reasonable return thereon. Thus, losses on loans and investments must be avoided to the extent necessary to assure sound and profitable operations. Third, a bank is obligated to serve its community by accommodating the legitimate credit needs of local industry, commerce, agriculture, and consumers.

In meeting these obligations, each bank must formulate loan and investment policies which strike what it considers to be an appropriate balance between safety and liquidity, profitability of operations, and credit accommodation of local borrowers. Because to some extent these requirements may present conflicting aspects which must be reconciled, banks must establish certain standards of creditworthiness for their borrowers and criteria for determining whether the credit applications reflect legitimate credit needs and are within the reasonable limitations of sound commercial banking.

From one bank to another, varying emphasis is placed upon the several criteria used to measure creditworthiness and to determine whether a given loan application represents a "legitimate credit need" and a bankable credit risk. Loan policies of commercial banks vary from conservatism to liberality. Nevertheless, there is a tendency for conservative lending at one bank to be counterbalanced by liberal loan policies at a competing institution serving the same credit area. Thus, the availability of bank credit to small business may not differ markedly from one trade area to another. A factor of considerable importance in influencing bank attitudes toward small-business loans is the fact that the great majority of banks in the District are small themselves, and the major portion of their business lending activity involves loans to local firms, most of which are small in size.

Bank Lending Policies

The willingness of commercial banks to extend credit to individual small businesses depends largely, of course, upon the prospects for repayment. In measuring repayment prospects, the primary considerations include the previous credit habits of the small-business owner, the ability of the business to generate the means of repayment, and the profitability of the borrower's business operations. These considerations, it may be noted, are no different from those involved in

evaluating the loan applications of larger business establishments. The survey results indicate that a large proportion of small-business enterprises are, in the light of these considerations, acceptable bank risks for short-term credit on an unsecured basis and that their working capital requirements are readily financed by local banks.

Of course, a number of small businesses in virtually every community are not able to meet their banks' requirements for credit accommodation on an unsecured basis and are accommodated on the basis of promissory notes secured by business or nonbusiness property, securities, endorsements, or guarantees. The prevalence of loans of these latter types and the willingness of banks to work out such arrangements for small-business borrowers whose accommodation on an unsecured basis would violate the credit standards maintained are significant indications of the attitude toward the accommodation of small-business credit requirements and the flexibility of bank lending policies.

Eleventh District banks lend to small business in a variety of forms. In each case, the particular form of credit extension which is used depends largely upon the credit standing of the borrower, the purpose for which the credit is to be used, and the loan policies of the lending bank. The most frequently used methods of extending credit are direct loans for equipment financing; short-term, unsecured loans; loans secured by endorsements, guarantees, and leases; and construction loans. The relative frequency of these forms of credit extension, as well as of the less commonly used forms, is shown in the accompanying table.

Credit Extensions to New Firms

Results of the study of bank policies with respect to lending to small business indicate that virtually all banks in the Eleventh District are more cautious in lending to new firms than in accommodating the credit requirements of existing businesses. In only isolated instances, however, did banks report firm policies against lending to newly organized business firms. As a rule, commercial bankers realize fully that the progress of their own institutions is closely associated with economic progress in the communities which they serve; thus, they have a special interest in credit applications from new businesses which will generate local income, broaden the base of the local economy, and meet reasonably sound bank credit policies. Nevertheless, this consideration often is tempered by

FORMS OF SMALL-BUSINESS LENDING, BY RELATIVE FREQUENCY OF USE

Eleventh Federal Reserve District

Type of financing	Percentage of 68 survey banks reporting loan use as:	
	Relatively frequent	Rare or never
Financing of commercial, industrial, or farm equipment		
Direct loans.....	91	9
Paper purchased from dealers.....	78	22
Paper rediscounted from finance companies.....	21	79
Purchase or acceptance of pledge of consumer paper from retail stores or dealers		
Auto dealers.....	59	41
All other retailers.....	72	28
Accounts receivable financing.....	71	29
Unsecured loans		
Term.....	50	50
Under lines of credit.....	82	18
Other.....	91	9
Loans secured by inventory.....	68	32
Loans secured by guarantees, endorsements, leases, etc.....	90	10
Construction loans.....	88	12
Mortgage loans on business properties.....	75	25
Loans secured by collateral unrelated to business (life insurance, securities, home mortgages, etc.).....	87	13

Loan Rejections Involving Small Business

By the individual small-business owner who is unable to obtain bank credit in the amounts desired and on the terms requested, the lack of availability of bank credit is apt to be looked upon as the principal source of his difficulty. To the commercial banker who must reject the amounts or terms requested, however, the lack of availability of bank credit is merely a reflection of more fundamental difficulties which the business is experiencing. Thus, to the extent that small-business loan applications are rejected by commercial banks, the rejections most commonly stem from considerations relating to the creditworthiness of the borrower, as affected by the various credit-influencing problems which may be present.

The most frequent reasons, as stated by the bankers, for rejecting small-business loan applications in the District are poor earnings records, inadequate owner's equity in the business, questionable management ability, insufficient quality of collateral, and length of maturity of the desired credit. To the extent that small-business applications are rejected because of the insufficient quality of collateral which small firms can pledge, most of these rejections apparently occur outside the major metropolitan centers, since this reason is not listed frequently by metropolitan banks as a cause for loan rejections. Data on the relative importance of reasons for small-business loan rejections in the Eleventh District are shown in the table below.

In view of the fact that most banks do not keep records on loan rejections, it is difficult to obtain a reasonably accurate estimate of the proportion of busi-

RELATIVE FREQUENCY OF VARIOUS REASONS FOR REJECTIONS OF SMALL-BUSINESS LOAN APPLICATIONS

Eleventh Federal Reserve District

Reason for loan rejection	Percentage of 68 survey banks citing reason as:	
	Relatively frequent ¹	Rare or never ¹
Reasons involving creditworthiness of borrower		
Not enough owner's equity in business.....	92	8
Questionable management ability.....	90	10
Poor earnings record.....	95	5
New firm with no established earnings record.....	64	36
Poor moral risk.....	46	54
Collateral of insufficient quality.....	92	8
Slow and past due in trade or loan payments.....	84	16
Reasons involving bank's over-all policies		
Line of business not handled by bank.....	28	72
Type of loan not handled by bank.....	45	55
Requested maturity too long.....	88	12
Loan portfolio for type of loan already full.....	18	82
Applicant has no established deposit relationship with bank.....	57	43
Applicant will not establish deposit relationship with bank.....	40	60

¹ Relative to the total number of loan rejections — not to the number of loan applications.

reluctance to finance businesses without operating histories, particularly in cases where the new-business owner has not demonstrated an ability to compete effectively in the field of his operations.

The greater caution in the credit accommodation of newly organized businesses is rather uniformly reflected in the application of more conservative lending terms. Thus, collateral requirements on loans to new businesses tend to be higher; maturities on loans to such firms often are shorter; and, in a comparatively small number of instances, rates of interest are higher. Occasionally, if the new-business owners are known and regarded favorably by the lending bank, the stricter terms do not apply.

At a large majority of banks in the District, the attitude toward lending to established small businesses having new ownership or control parallels the attitude toward lending to newly organized firms. That is, most banks show considerable caution in lending to small businesses operating under new management, and the more cautious attitude usually is reflected in more conservative terms on credit extensions. As reasons for exercising greater caution in lending to newly organized firms or firms operating under new management, District bankers are almost unanimous in citing the greater risks inherent in lending to firms which (1) offer products or services for which the market is not proved, (2) have not demonstrated a capacity to compete effectively in markets which have been proved, or (3) have not established a record of borrowing and repayment habits which enable a bank to evaluate fully the creditworthiness of the borrower.

ness loan requests that are turned down. At commercial banks which were willing to attempt this estimate, the indication was that less than 10 percent of the total number of business loan requests (including informal inquiries) are rejected; at most banks which provided estimates of loan rejections, the percentage rejected most commonly was placed at between 2 and 5 percent. While these estimates undoubtedly are subject to a wide margin of error, most of the banks participating in the survey were able to indicate that, in terms of the number of business loan rejections, the majority involved small businesses. In view of the fact that small businesses account for the majority of loan applications and since most marginal borrowers tend to be small in asset size, it is not surprising that the total number of loan rejections involves a greater number of small firms than firms in the larger size categories.

In the case of rejected business loan applicants whose credit applications might be acceptable to other institutions, commercial banks customarily refer their rejected applicants to such alternative sources of financing as might accommodate them. In general, it appears that applicants who cannot be accommodated are referred most frequently to insurance

companies and savings associations if the primary consideration in rejecting the applicant is the length of the maturity requested or banking regulations which prevent lending on the basis of unimproved property. Applicants presenting risks that, for any of various reasons, are not considered bankable risks often are referred to the Small Business Administration or, in isolated instances, to individual lenders and investors.

Recent Changes in Loans to Small Business

The information gained from personal interviews with commercial bankers across the country has been supplemented by the Survey of Business Loans at Member Banks as of October 16, 1957. This survey, comparable to a previous survey conducted as of October 5, 1955, provided information on business loan characteristics both at a relatively early stage and at a late stage of the recent period of monetary and credit restraint. Definitions of small, medium, and large businesses as used in this survey may be found on page 409 in the April 1958 issue of the *Federal Reserve Bulletin*.

Between October 5, 1955, and October 16, 1957, a period embracing 2 years of increasing credit restraint, the number of business loans at member banks in the District rose from 83,050 to 95,778, reflecting

BUSINESS LOANS OF MEMBER BANKS, OCTOBER, 16, 1957, AND PERCENTAGE CHANGE, OCTOBER 16, 1957 FROM OCTOBER 5, 1955, BY BUSINESS AND RELATIVE SIZE OF BORROWER

Eleventh Federal Reserve District

(Dollar amounts in thousands)

Business of borrower	RELATIVE SIZE OF BORROWER					
	Small		Medium		Large	
	Amount of loans	Percentage change	Amount of loans	Percentage change	Amount of loans	Percentage change
MANUFACTURING AND MINING						
Food, liquor, and tobacco.....	\$ 24,274	45.7	\$ 33,108	37.9	\$ 4,263	-0.5
Textiles, apparel, and leather.....	10,135	-10.7	15,650	156.7	2,077	3,095.4
Metals and metal products.....	57,652	6.1	31,001	58.5	8,016	19.1
Petroleum, coal, chemicals, and rubber.....	264,246	-7.3	113,086	18.4	13,552	-8.8
All other.....	19,774	-5.4	54,635	6.3	9,354	132.7
TRADE						
Retail trade.....	34,755	21.7	145,411	17.6	74,405	58.1
Wholesale trade.....	42,914	42.7	104,142	79.7	26,922	258.2
Commodity dealers.....	11,689	24.5	38,687	13.0	35,660	155.5
OTHER						
Sales finance companies.....	56,950	-32.9	13,595	-38.9	34,070	75.3
Transportation, communication, and other public utilities.....	3,715	59.0	64,309	39.1	6,082	-59.5
Construction.....	12,193	-25.8	113,644	-4	90,970	-6.6
Real estate.....	32,696	-48.0	54,692	-9.7	115,885	-1.9
Service firms.....	19,314	-2.9	86,913	12.3	36,930	-7.9
All other nonfinancial business.....	10,782	45.5	78,609	2.4	104,085	37.8
ALL BUSINESSES.....	601,089	-7.6	947,482	17.0	562,271	21.1

an increase of 15.3 percent. During the same period, the number of loans to firms classified as small business rose 7.0 percent, those to medium-size firms increased 22.4 percent, and the number of loans to large firms expanded 6.8 percent. In October 1955, 58.3 percent of all business loans in the District were made to small businesses, whereas in October 1957, small businesses received 54.1 percent of the number of all business loans outstanding.

In terms of dollar amounts, small businesses received 33.8 percent of total business loans outstanding on October 5, 1955, but this percentage declined to 28.3 on October 16, 1957. In contrast, loans to medium-size enterprises rose from 42.1 percent of total business loans on October 5, 1955, to 44.6 percent on October 16, 1957, while loans to large firms increased from 24.1 percent of the total to 26.5 percent over the same period of time. In the October 1957 survey, loans to businesses of undetermined size amounted to 0.6 percent of the total dollar volume. Percentage changes in the dollar volume of business loans, classified by type of business and relative size of borrower, are provided in the table above.

In connection with this table, it should be noted that the absolute decline in the volume of loans to small business between October 1955 and October 1957 is associated partially with a number of factors not related to credit restraint. First, the upper limit of the asset size for small-business borrowers was the same in the 1957 survey as in the 1955 survey. During this 2-year interval, a large number of firms undoubtedly experienced a growth in total assets which transferred them from the small-size group in 1955 to the medium-size group in 1957. Thus, a natural increase in business size is partially responsible for what appears to be a shift in the allocation of bank credit.

Second, although the District economy as a whole achieved progressively higher levels of activity during the 1955-57 period, a substantial number of business firms in certain areas of the District were adversely affected by a decline in economic activity as a result of drought conditions. The lower level of operations of these firms occasioned a reduction in their credit needs, which partially offset the larger credit requirements of businesses in other parts of the District. To the extent that drought conditions depressed the volume of loan requests in the drought-stricken areas, the credit needs of small firms were most affected. Larger firms, tending to serve geographically

broader markets, were able to capitalize on the expanded level of demand growing out of the Southwest's and the Nation's progression to higher levels of economic activity. In the drought-stricken regions of the District, therefore, medium- and large-size firms were less affected than the smaller firms whose markets centered primarily or exclusively in such regions.

In the manufacturing and mining categories, where small businesses showed an absolute decline in borrowings in contrast to substantial increases in the borrowings of medium- and large-size firms, the decline in the borrowings of small firms was weighted heavily by the smaller 1957 borrowings of firms in the "petroleum, coal, chemicals, and rubber" classification.

In each of the categories, factors other than credit restraint were of varying importance in effecting shifts in the distribution of credit among the relative size classes. In construction, for example, small firms substantially reduced their borrowings between 1955 and 1957, while medium- and large-size businesses showed only small declines. These changes occurred during a period when industrial and commercial construction, commonly involving projects undertaken by larger firms, was rising. In contrast, residential construction, a field in which smaller firms predominate, decreased over this period. Real-estate loans were similarly influenced by the changing pattern of construction activity.

As suggested above, it is not possible to determine from the business loan survey data the precise extent to which changes in the distribution of bank credit among firms in various size groups were influenced by a restrictive credit policy and the extent to which these changes occurred as a result of forces that produced differential effects upon the demand for credit by business firms in the various size groups. Personal interviews with commercial bankers in the District revealed that the combination of strong credit demands and a restrictive credit policy occasioned the adoption of more selective lending policies during the 1955-57 period, particularly on the part of larger banks in the District. While the evidence indicates that more conservative lending policies were applied uniformly to both large and small firms, it is true, nevertheless, that uniformly more selective lending policies tend to have a greater impact upon smaller firms, since the marginal borrowers at most banks customarily are concentrated in the smaller asset-size groups.

At most banks in rural areas and smaller population centers, lending policies were reported to have remained virtually unchanged during the 1955-57 period. Increases in credit demands at these banks were small or moderate, and the comfortable liquidity and reserve positions which these banks traditionally maintain permitted the accommodation of moderate growth in credit demands without the imposition of more selective lending policies. In isolated instances, however, some rural banks adopted slightly more conservative lending policies. At such banks, the application of more selective lending policies commonly featured a greater reluctance to accommodate nonlocal borrowers on a direct-loan basis, a strengthening of compensating balance requirements, and extension of preferential treatment to established borrowers. Since the lending operations of these banks are confined almost exclusively to the accommodation of small business, most of the impact fell upon smaller firms.

Virtually all the larger metropolitan banks included in the District sample reported the adoption of more selective lending policies in the 1955-57 period. At these banks, the accommodation of enlarged credit demands generated by higher levels of production, income, and employment produced a gradual tightening of reserve and liquidity positions; and the persistence of unusually large loan demand required the scaling down of some credit requests, a closer scrutiny of the merits of loan applications, efforts to obtain higher compensating balances, and, in general, the more reluctant accommodation of business loan requests from almost all sources.

While the more selective lending policies of District banks applied to short-term loans, term loans, and firm commitments to extend funds, one of the most noticeable developments was a pronounced increase in the reluctance of banks to provide term financing to businesses. This increased reluctance applied equally at large and small banks, but because of the greater amounts involved, commercial banks were especially anxious to avoid term loans to larger firms. In some instances, they were not successful in doing so, however, because of the size and importance of a particular business borrower.

The objective of avoiding term loans during the period of monetary restraint reflected two basic considerations: the preference for avoiding loans which would lengthen the average maturity of the loan portfolio, thereby aggravating the problem of declining

liquidity, and — in view of the pressure of demand against a limited supply of loanable funds — the desire to make the same volume of funds go further (i.e., accommodate more borrowers) by accommodating a number of borrowers on a short-term basis rather than one borrower for a longer time period.

The more selective allocation of funds by commercial banks in the District featured, as outstanding characteristics, differential treatment of new versus established customers and of local versus nonlocal borrowers. At virtually all of the District banks which reported the adoption of more conservative lending policies after 1954, established bank customers received preferential treatment over new applicants, and the consideration given new applications was materially reduced. While these policies did not feature a distinction between businesses of different sizes, the pursuit of such policies rather frequently involved the rejection of national accounts seeking new sources of credit supply.

Similarly, the extension of preferential treatment to local firms consistently was reported by banks which adopted more conservative lending policies after 1954. Here again, the size of business of credit applicants was not a material factor in the consideration of loan applications, and to the extent that nonlocal borrowers received less favorable treatment at commercial banks, relatively large firms were affected most.

A particularly crucial aspect of the question as to whether small businesses bore a disproportionate share of the burden of monetary restraint centers around the changes in credit standards of commercial banks. Most of the marginal business borrowers at banks are small firms, and it should be expected that the impact of any upgrading of the standards for creditworthiness maintained by banks would fall largely upon these marginal firms. The survey results indicate, however, that the standards of creditworthiness applied to small businesses have not changed, except in isolated cases. For the most part, commercial banks which adopted more conservative lending policies effected the desired allocation of funds by scaling down some credit requests, by curtailing loans to nonlocal borrowers and new customers, and by increasing their charges on loans, rather than by upgrading credit standards across the board.

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BUSINESS REVIEW

BUSINESS, AGRICULTURAL, AND FINANCIAL CONDITIONS



Eleventh District crude oil production in early August rose sharply above July output to reach 3,025,000 barrels daily.

A further substantial increase is scheduled for September, since the Texas Railroad Commission has raised allowables 228,302 barrels per day. Crude stocks in the Nation remain well below the year-earlier level, but gasoline stocks are high enough to cause some concern.

July sales at District department stores rose slightly over June but remained under a year ago. Substantial weakness in sales of hard goods caused the year-to-year decline since soft goods sales rose, mainly from the stimulus of prefall buying in some women's wear departments. Automobile registrations in the four largest metropolitan areas in the District also improved over June but were nearly one-third below July 1957.

Crops are maturing rapidly, and harvesting of cotton and grain is making excellent progress. Cotton production in the District states is expected to be substantially greater than it was in 1957. Output of

grain sorghums is moderately higher, and larger crops of rice, peanuts, and hay are also indicated. Rain is needed to maintain development of forage; livestock remain in good condition.

Nonfarm employment in the District states during July declined somewhat more than seasonally. However, unemployment in Texas showed the expected seasonal decrease, and a further reduction is indicated for August.

Construction contracts awarded in the District states during June reached the highest value since the start of the five-state series in January 1956. During July, construction awards in Texas reached an all-time record for the month. Nonresidential construction accounted for a large part of these increases.

Except for loans to brokers and dealers, all major types of loans, including commercial and industrial, expanded at District weekly reporting member banks during the 5 weeks ended August 20. Effective August 22, the Federal Reserve Bank of Dallas raised its discount rate from 1 3/4 percent to 2 percent.



Retail sales at Eleventh District department stores during July rose 2 percent over June, principally because of an extra trading day, but were 4 percent below

July 1957. The seasonally adjusted sales index, which allows for differences in trading days and other seasonal factors, was 162 percent of the 1947-49 average in July, the same as in June but below the 169 recorded for July last year. In early August, sales improved somewhat relative to last year and for the first 2 weeks were 2 percent above a year ago, but cumulative 1958 sales remained 2 percent under the same period in 1957.

The year-to-year decline in department store sales in July was apparently due to weaknesses in the hard

goods lines. Sales in the major household appliances group — which includes refrigerators, stoves, laundry equipment, air-conditioning units, and other large appliances — were down 35 percent from a year earlier.

DEPARTMENT STORE SALES AND STOCKS

(Percentage change in retail value)

Area	NET SALES			STOCKS (End of month)	
	July 1958 from		7 mos. 1958 comp. with 7 mos. 1957	July 1958 from	
	June 1958	July 1957		June 1958	July 1957
Total Eleventh District.....	2	-4	-2	0	-8
Corpus Christi.....	3	-4	-6	1	-7
Dallas.....	4	-3	1	1	-8
El Paso.....	-9	9	3	3	8
Fort Worth.....	-1	-4	-2	-3	-8
Houston.....	5	-13	-9	-5	-15
San Antonio.....	7	2	1	2	0
Shreveport, La.....	-3	-6	-6	3	-6
Waco.....	1	-12	-8	3	-15
Other cities.....	-1	0	2	0	-5

INDEXES OF DEPARTMENT STORE SALES AND STOCKS

Eleventh Federal Reserve District

(1947-49 = 100)

Date	SALES (Daily average)		STOCKS (End of month)	
	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted
1957: July.....	151	169r	169	178
1958: May.....	159	161	163	164
June.....	147	162	156r	168r
July.....	144	162	156p	164p

r — Revised.
p — Preliminary.

SALES AT FURNITURE STORES AND HOUSEHOLD APPLIANCE STORES

(Percentage change in retail value)

Line of trade by area	July 1958 from		7 mos. 1958 comp. with 7 mos. 1957
	June 1958	July 1957	
FURNITURE STORES			
Total Eleventh District.....	—2	—7	0
Amarillo.....	43	—3	—19
Austin.....	0	—14	—2
Dallas.....	—15	—12	—1
Houston.....	—6	—12	2
Lubbock.....	23	3	—
San Antonio.....	—4	—6	—7
Shreveport, La.....	6	—4	9
Wichita Falls.....	—13	—18	—15
Other cities.....	2	—1	—4
HOUSEHOLD APPLIANCE STORES			
Total Eleventh District.....	—9	—6	—
Dallas.....	—6	—9	—

Sales of radios, phonographs, and television sets were 8 percent below July last year, but preliminary information indicates that there was some strengthening in sales of these goods in early August. Prefall buying resulted in an 8-percent year-to-year increase in sales of women's and misses' coats and suits in July. Year-to-year gains also were reported in sales of blouses, skirts, and sportswear — up 3 percent — and silverware and jewelry — up 2 percent.

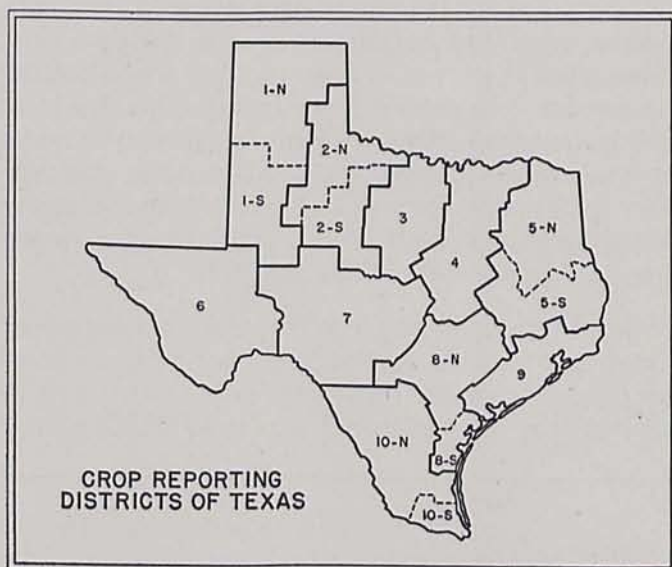
Inventories at District department stores showed little change in July and at the end of the month were 8 percent below a year ago. Information from a selected group of stores on new orders, orders outstanding, and receipts of merchandise to replenish inventories indicates that approximately seasonal month-to-month movements occurred during July but, as in recent months, at levels substantially under a year earlier.

As measured by new car registrations, automobile sales improved somewhat during July. Total registrations in the metropolitan areas of Dallas, Fort Worth, Houston, and San Antonio in July were 9 percent greater than in June but 31 percent below July 1957. Each of the areas showed a month-to-month increase

except Fort Worth, where a 2-percent decline occurred. All four areas registered substantial decreases from July last year, ranging from 18 percent in San Antonio to 37 percent in Houston. For the first 7 months in 1958, total registrations were 25 percent below the same period in 1957.



Harvesting of cotton and grain sorghums highlighted agricultural activity during the past month. Hot, dry winds and high temperatures throughout most of the District depleted surface moisture and hastened maturity of crops. Moisture generally is needed throughout most of the Southwest to maintain development of crops and pastures, particularly from the Cross Timbers westward into New Mexico and Arizona.



Cotton harvesting is past its peak in the Lower Valley of Texas and is well advanced in coastal areas. First bales have been ginned in the northern Blacklands and as far west as the Southern High Plains, but in the latter area, peak harvest is still several weeks away. Cotton remains quite promising in most sections, especially the irrigated western areas. In the Blacklands of Texas, wilting and shedding of cotton plants have resulted in some damage, and losses from root rot have been prevalent in various localities.

The crop in the District states is estimated, as of August 1, at 5,940,000 bales, or 13 percent greater than last year and slightly larger than the 1947-56

COTTON PRODUCTION
Texas Crop Reporting Districts
(In thousands of bales — 500 lb. gross wt.)

Crop reporting district	1958 Indicated August 1	1957	1956	1958 as percent of 1957
1-N.....	525	379	499	139
1-S.....	1,400	1,196	1,186	117
2-N.....	220	217	166	101
2-S.....	240	263	109	91
3.....	15	17	9	88
4.....	400	424	358	94
5-N.....	55	70	84	79
5-S.....	70	72	75	97
6.....	305	272	289	112
7.....	25	21	11	119
8-N.....	115	115	84	100
8-S.....	165	115	134	143
9.....	165	156	163	106
10-N.....	50	36	52	139
10-S.....	400	279	396	143
State.....	4,150	3,632	3,615	114

SOURCE: United States Department of Agriculture.

average. In Texas, record-breaking yields are indicated, and output is placed at 4,150,000 bales, reflecting increases of 14 percent over the 1957 output and 5 percent over the 10-year average. Production is placed above the 1957 output in all areas of the State except east Texas, the Blacklands, and the southern Low Rolling Plains. Prospective production in Arizona, New Mexico, and Louisiana this year ranges from 8 percent to 19 percent higher than last year; output in Oklahoma is 3 percent smaller than the 1957 outturn.

Native and improved pastures throughout the District deteriorated during August as a result of the hot, dry weather. Grass is curing rapidly, and rain is needed in most sections to maintain currently excel-

CROP PRODUCTION
Texas and Five Southwestern States
(In thousands of bushels)

Crop	TEXAS			FIVE SOUTHWESTERN STATES ¹		
	Estimated August 1, 1958	1957	Average 1947-56	Estimated August 1, 1958	1957	Average 1947-56
Cotton ²	4,150	3,632	3,937	5,940	5,242	5,906
Corn.....	46,440	40,020	41,525	76,644	61,440	72,283
Winter wheat....	77,441	33,669	43,687	200,039	81,912	118,313
Oats.....	43,552	35,260	23,852	67,640	53,558	39,918
Barley.....	8,694	5,481	1,892	33,486	23,711	12,241
Rye.....	270	180	240	2,175	1,255	817
Rice ³	12,540	11,104	12,863	24,488	21,704	25,133
Sorghum grain....	253,855	238,095	96,256	277,320	267,742	113,676
Flaxseed.....	360	126	827	385	164	1,146
Hay ⁴	2,422	2,316	1,690	6,394	6,047	5,041
Peanuts ⁵	234,175	159,840	213,524	362,125	256,640	324,617
Irish potatoes ⁶ ...	2,148	1,630	1,498	5,390	4,495	13,424
Sweet potatoes ⁶ ...	1,320	1,200	1,370	6,358	6,146	16,485
Pecans ⁷	45,000	55,000	31,640	77,500	108,500	69,624

¹ Arizona, Louisiana, New Mexico, Oklahoma, and Texas.

² In thousands of bales.

³ In thousands of bags containing 100 pounds each.

⁴ In thousands of tons.

⁵ In thousands of pounds.

⁶ In thousands of hundredweight.

⁷ Average, 1949-56.

SOURCE: United States Department of Agriculture.

lent prospects for fall forage. All classes of livestock remain in good condition, despite high temperatures and increased cattle fly activity. Feed conditions as of August 1 in the range states of the District generally declined seasonally from a month earlier but were improved from conditions on the same date a year ago.



In the 5 weeks ended August 20, weekly reporting member banks in the Eleventh District placed \$73.7 million of additional loans and expanded investments \$108.5 million. About half of these gains was offset by reductions in cash holdings. Deposits rose \$82.4 million, and the banks lowered their outstanding bills payable and rediscounts by \$5.5 million.

Loan demand at the banks was active throughout the entire range of classifications, except loans to brokers and dealers for purchasing or carrying securities. These loans mainly reflected the decreased demand of Government security dealers, but interbank loans (sales of Federal funds) provided a more than offsetting increase. Business borrowings rose \$41.1 million, after registering moderate liquidation in the prior 4 weeks. In the comparable 1957 period, a smaller gain was recorded. While business loans nationally had shown a year-to-year decline thus far in 1958, commercial and industrial credits extended by weekly reporting member banks in the Eleventh District had risen about \$94 million through August 20.

The increase in bank investment holdings occurred principally in connection with the August 6 Treasury cash financing. The banks increased their holdings of certificates and Treasury bills by \$148.9 million and \$10.2 million, respectively. Their position in Government bonds was reduced \$49 million.

Deposit gains were widespread, with most demand deposit categories rising. The Federal Government replenished its balances by \$52.1 million, largely reflecting the August 6 cash financing, for which payment was permitted by credit to Tax and Loan Accounts. Individual and business accounts rose \$7.7 million. Time accounts scored another monthly rise, mainly as a result of expansion in business and personal accounts.

In July, Eleventh District member banks held daily average free reserves of \$63 million, which is unchanged from the preceding month although substantially above the year-earlier level. The month-

CONDITION STATISTICS OF WEEKLY REPORTING MEMBER BANKS IN LEADING CITIES

Eleventh Federal Reserve District

(In thousands of dollars)

Item	August 20, 1958	July 16, 1958	August 21, 1957
ASSETS			
Commercial and industrial loans.....	\$1,555,274	\$1,514,150	\$1,460,968
Agricultural loans.....	36,540	30,195	22,538
Loans to brokers and dealers in securities.....	24,068	44,489	28,065
Other loans for purchasing or carrying securities.....	184,398	181,412	147,913
Real-estate loans.....	224,133	220,456	193,080
Loans to banks.....	52,232	30,427	30,015
All other loans.....	657,273	639,059	614,938
Gross loans.....	2,733,918	2,660,188	2,497,517
Less reserves and unallocated charge-offs..	45,729	45,858	42,774
Net loans.....	2,688,189	2,614,330	2,454,743
U. S. Treasury bills.....	84,307	74,107	224,965
U. S. Treasury certificates of indebtedness.....	233,772	84,921	107,011
U. S. Treasury notes.....	269,272	268,959	158,182
U. S. Government bonds (inc. gtd. obligations)...	947,222	996,264	844,525
Other securities.....	311,255	313,068	280,512
Total investments.....	1,845,828	1,737,319	1,615,195
Cash items in process of collection.....	394,559	426,254	400,389
Balances with banks in the United States.....	494,530	522,993	438,524
Balances with banks in foreign countries.....	1,319	1,456	1,798
Currency and coin.....	49,030	48,466	47,055
Reserves with Federal Reserve Bank.....	571,803	605,532	573,319
Other assets.....	154,208	162,332	170,470
TOTAL ASSETS.....	6,199,466	6,118,682	5,701,493
LIABILITIES AND CAPITAL			
Demand deposits			
Individuals, partnerships, and corporations....	2,838,928	2,831,282	2,776,936
United States Government.....	176,687	124,634	192,065
States and political subdivisions.....	170,506	178,633	174,887
Banks in the United States.....	1,050,190	1,041,460	879,207
Banks in foreign countries.....	21,084	14,908	20,811
Certified and officers' checks, etc.....	74,039	62,526	54,581
Total demand deposits.....	4,331,434	4,253,443	4,098,487
Time deposits			
Individuals, partnerships, and corporations....	1,069,971	1,057,743	804,963
United States Government.....	7,455	7,455	12,420
Postal savings.....	421	421	421
States and political subdivisions.....	221,668	229,420	201,925
Banks in the U. S. and foreign countries.....	1,903	1,963	6,550
Total time deposits.....	1,301,418	1,297,002	1,026,279
Total deposits.....	5,632,852	5,550,445	5,124,766
Bills payable, rediscounts, etc.....	14,000	19,500	41,050
All other liabilities.....	61,134	62,676	84,157
Total capital accounts.....	491,480	486,061	451,520
TOTAL LIABILITIES AND CAPITAL.....	6,199,466	6,118,682	5,701,493

RESERVE POSITIONS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. In thousands of dollars)

Item	July 1958	June 1958	July 1957
RESERVE CITY BANKS			
Reserve balances.....	\$556,469	\$555,659	\$ 578,383
Required reserves.....	543,631	539,468	569,056
Excess reserves.....	12,838	16,191	9,327
Borrowings.....	300	2,360	19,228
Free reserves.....	12,538	13,831	-9,901
COUNTRY BANKS			
Reserve balances.....	430,508	428,246	450,175
Required reserves.....	378,562	377,863	401,053
Excess reserves.....	51,946	50,383	49,122
Borrowings.....	1,448	1,162	5,374
Free reserves.....	50,498	49,221	43,784
MEMBER BANKS			
Reserve balances.....	986,977	983,905	1,028,558
Required reserves.....	922,193	917,331	970,109
Excess reserves.....	64,784	66,574	58,449
Borrowings.....	1,748	3,522	24,602
Free reserves.....	63,036	63,052	33,847

CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(In thousands of dollars)

Item	August 20, 1958	July 16, 1958	August 21, 1957
Total gold certificate reserves.....	\$765,132	\$738,747	\$793,838
Discounts for member banks.....	1,000	1,100	28,827
Other discounts and advances.....	0	0	260
U. S. Government securities.....	991,523	991,617	902,673
Total earning assets.....	992,523	992,717	931,760
Member bank reserve deposits.....	965,139	980,776	970,239
Federal Reserve notes in actual circulation....	743,027	729,057	705,494

to-month changes were generally small and mainly offsetting: Reserve balances rose \$3.1 million, while required reserves increased somewhat more; the decrease in excess reserves was matched by a corresponding reduction in borrowed funds.

Gold certificate holdings of the Federal Reserve Bank of Dallas increased \$26.4 million during the 5 weeks ended August 20. The Bank's participation in the open market account showed a fractional decline, although the volume of securities transactions was relatively high. Member bank reserve balances declined \$15.6 million, while outstanding currency in circulation rose \$13.9 million in the 5 weeks and \$37.5 million on a year-to-year basis.

NEW MEMBER BANK

The Northeast National Bank of Houston, Houston, Texas, a newly organized institution located in the territory served by the Houston Branch of the Federal Reserve Bank of Dallas, opened for business August 27, 1958, as a member of the Federal Reserve System. The new member bank has capital of \$100,000, surplus of \$100,000, and undivided profits of \$50,000. The officers are: James L. Cowan, President; W. E. Carlisle, Jr., Vice President and Cashier; Vallo Q. McLish, Assistant Cashier; and Bob R. Daniel, Assistant Cashier.

NEW PAR BANKS

The Security State Bank, River Oaks, Fort Worth, 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, August 23, 1958. The officers are: J. V. Brookshear, President; Victor Holveck, Vice President; C. E. Francis, Cashier; and Ben Youngblood, Assistant Cashier.

The Portland State Bank, Portland, 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, August 23, 1958. The officers are: James G. Fisher, President; A. K. Adams, Vice President (inactive); J. E. Bell, Jr., Cashier; and Charles J. Beall, Assistant Cashier.

Effective August 22, the Federal Reserve Bank of Dallas raised its rate on discounts and advances, under Sections 13 and 13a of the Federal Reserve Act, from $1\frac{3}{4}$ percent to 2 percent. This action was the first increase in the discount rate since August 1957. In the intervening 11 months, discount rates had been reduced in four separate steps from $3\frac{1}{2}$ percent to $1\frac{3}{4}$ percent.



The generally improved supply and demand situation in the petroleum industry was reflected in two major developments in early August: an increase in light heating oil prices in much of the Nation and a sharp rise in crude oil production, primarily as a result of higher Texas allowables. District output in the first half of August, at 3,025,000 barrels daily, showed a gain of 270,000 barrels per day over July but was 4 percent below the year-earlier level. National production was slightly above the output in August 1957, resulting in the first year-to-year gain in 13 months.

A further substantial increase in crude oil production is in the offing for September, since the Texas Railroad Commission has increased allowables 228,302 barrels per day by adopting a 12-day production schedule. Allowables in the other southwestern states show little change.

Total imports—crude and products—averaged 1,443,000 barrels daily in the 5 weeks ended August 15, down 7 percent from the prior 5-week period and 11 percent from a year ago. In partial compensation for the restriction on crude oil imports, product imports were increased 43 percent over the 1957 flow. Crude stocks in the Nation on August 16 rose slightly from the 7-year low level of late July to reach 250,038,000 barrels but were 13 percent below a year earlier.

District crude runs to refinery stills showed a small gain in the first part of August to reach a level of 2,142,000 barrels per day. Compared with August 1957, District runs were down 8 percent, while national refinery operations declined 5 percent.

Stocks of the major products showed a 2-percent seasonal rise in early August, reaching 399,437,000 barrels on August 15. At this level, such inventories were 1 percent under a year earlier, with stocks east of the Pacific Coast down 4 percent. Only residual fuel oil stocks reflected any substantial rise.



District states nonagricultural employment in July, at 4,260,200, declined 11,300 workers from the revised June total—or somewhat more than the usual seasonal decrease. Most of the July decline resulted from a seasonal reduction in school employment. Manufacturing employment showed a moderate downturn, with the decrease concentrated in transportation equipment production and food processing. Trade, services, and construction were among industries reporting employment gains. Unemployment in Texas during July reflected an approximately normal seasonal decline to reach 195,500, or 5.4 percent of the labor force, compared with 208,500 and 5.7 percent in June.

The average weekly hours and earnings of Texas manufacturing workers, after rising in May and June, were practically unchanged in July at 40.8 hours and \$85.68. These levels compare with the recession lows of 39.8 hours and \$82.39 in April.

The value of construction contracts awarded in the District states during June was \$496,248,000, which is the highest level since records for all five states were begun in January 1956. The June figure reflects sharp gains of 48 percent over May and 22 percent over a year earlier, with much of the expansion occurring in nonresidential construction. Large contracts for petroleum pipelines in Texas and Louisiana accounted for \$100 million of the June total. The *Texas Contractor* reports that construction awards in Texas during July reached a record for the month, with the value more than 50 percent above both June and a year ago.

NONAGRICULTURAL EMPLOYMENT

Five Southwestern States¹

Type of employment	Number of persons			Percent change July 1958 from	
	July 1958e	June 1958	July 1957r	June 1958	July 1957
Total nonagricultural	4,260,200	4,271,500	4,335,800	—0.3	—1.8
wage and salary workers..	4,260,200	4,271,500	4,335,800	—0.3	—1.8
Manufacturing.....	734,800	738,200	783,300	—5	—6.2
Nonmanufacturing.....	3,525,400	3,533,300	3,552,500	—2	—8
Mining.....	241,200	243,100	272,200	—8	—11.4
Construction.....	314,700	309,500	322,800	1.7	—2.5
Transportation and public utilities.....	394,900	393,000	410,400	.5	—3.8
Trade.....	1,123,500	1,121,200	1,129,600	.2	—6
Finance.....	191,600	190,900	185,500	.4	3.3
Service.....	532,800	531,500	523,400	.2	1.8
Government.....	726,700	744,100	708,600	—2.3	2.6

¹ Arizona, Louisiana, New Mexico, Oklahoma, and Texas.

e — Estimated.

r — Revised.

SOURCES: State employment agencies.
Federal Reserve Bank of Dallas.

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

(Dollar amounts in thousands)

Area	Debits to demand deposit accounts ¹			Demand deposits ¹			
	July 1958	Percentage change from		July 31, 1958	Annual rate of turnover		
		June 1958	July 1957		July 1958	June 1958	July 1957
ARIZONA							
Tucson.....	\$ 186,936	4	10	\$ 107,759	20.8	20.4	20.3
LOUISIANA							
Monroe.....	73,115	4	-7	50,107	17.8	16.9	17.9
Shreveport.....	275,901	2	-1	179,680	18.4	17.9	17.5
NEW MEXICO							
Roswell.....	33,445	11	11	27,161	14.5	13.0	13.2
TEXAS							
Abilene.....	84,666	4	-7	59,528	17.0	16.7	17.0
Amarillo.....	189,895	6	-6	117,048	19.7	19.1	23.2
Austin.....	180,352	8	8	126,932	16.7	15.4	16.2
Beaumont.....	144,023	0	-13	101,552	16.4	16.1	18.5
Corpus Christi.....	192,852	10	-3	109,265	21.1	19.1	21.6
Corsicana.....	15,588	0	-3	22,276	8.3	8.4	8.9
Dallas.....	2,254,821	-2	-1	1,046,554	25.7	26.6	27.4
El Paso.....	292,645	2	5	150,590	23.3	23.0	24.8
Fort Worth.....	735,876	6	-1	368,746	23.8	22.7	24.1
Galveston.....	91,924	8	-14	68,393	16.3	15.4	18.4
Houston.....	2,302,716	4	-2	1,197,749	23.2	22.6	23.2
Laredo.....	26,493	2	13	21,901	14.4	14.4	13.8
Lubbock.....	147,463	4	11	101,546	17.5	16.9	16.6
Port Arthur.....	69,906	12	10	46,178	18.0	16.4	17.9
San Angelo.....	49,134	2	1	42,783	14.0	14.4	13.7
San Antonio.....	566,335	4	5	379,263	17.9	17.4	19.0
Texarkana ²	19,427	-1	-15	16,295	14.3	14.6	16.8
Tyler.....	80,069	0	-8	62,609	15.4	15.5	16.6
Waco.....	98,052	2	3	65,265	17.8	17.4	18.1
Wichita Falls.....	102,676	-4	-4	107,200	11.4	12.1	12.4
Total—24 cities.....	\$8,214,310	2	-1	\$4,576,380	21.5	21.2	22.2

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 one bank located in the Eighth District, amounted to \$43,805,000 for the month of July 1958.

SHORN WOOL PRODUCTION

Five Southwestern States

(In thousands of pounds)

Area	1958p	1957	Average 1947-56	1958 as percent of 1957
Arizona.....	3,131	3,055	2,852	102
Louisiana.....	404	400	382	101
New Mexico.....	9,896	10,523	11,534	94
Oklahoma.....	1,800	1,685	1,152	107
Texas.....	39,554	39,409	49,175	100
Total.....	54,785	55,072	65,095	99

p—Preliminary.

SOURCE: United States Department of Agriculture.

CRUDE OIL: DAILY AVERAGE PRODUCTION

(In thousands of barrels)

Area	July 1958 ¹	June 1958 ¹	July 1957 ²	June 1958	July 1957
ELEVENTH DISTRICT.....	2,754.8	2,637.2	3,162.7	117.6	-407.9
Texas.....	2,399.3	2,276.0	2,780.7	123.3	-381.4
Gulf Coast.....	461.9	445.4	542.8	16.5	-80.9
West Texas.....	1,034.6	945.5	1,201.9	89.1	-167.3
East Texas (proper).....	128.5	120.5	175.7	8.0	-47.2
Panhandle.....	104.0	106.5	102.1	-2.5	1.9
Rest of State.....	670.3	658.1	758.2	12.2	-87.9
Southeastern New Mexico.....	249.2	248.4	250.6	.8	-1.4
Northern Louisiana.....	106.3	112.8	131.4	-6.5	-25.1
OUTSIDE ELEVENTH DISTRICT.....	3,744.9	3,692.4	3,709.9	52.5	35.0
UNITED STATES.....	6,499.6	6,329.6	6,872.6	170.0	-373.0

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	July 30, 1958	June 25, 1958	July 31, 1957
ASSETS			
Loans and discounts.....	\$ 4,311	\$ 4,276	\$3,943
United States Government obligations.....	2,581	2,628	2,463
Other securities.....	744	743	652
Reserves with Federal Reserve Bank.....	954	974	1,016
Cash in vault.....	133	130	166
Balances with banks in the United States.....	1,089	1,160	964
Balances with banks in foreign countries ^e	1	1	2
Cash items in process of collection.....	424	461	425
Other assets ^e	239	239	215
TOTAL ASSETS ^e	10,476	10,612	9,846
LIABILITIES AND CAPITAL			
Demand deposits of banks.....	1,160	1,193	1,011
Other demand deposits.....	6,290	6,416	6,335
Time deposits.....	2,087	2,065	1,631
Total deposits.....	9,537	9,674	8,977
Borrowings ^e	14	7	20
Other liabilities ^e	80	92	70
Total capital accounts ^e	845	839	779
TOTAL LIABILITIES AND CAPITAL ^e	10,476	10,612	9,846

^e—Estimated.

BUILDING PERMITS

VALUATION (Dollar amounts in thousands)

Area	NUMBER		Percentage change	
	July 1958	7 mos. 1958	July 1958 from	
			June 1958	July 1957
ARIZONA				
Tucson.....	427	3,223	\$ 1,751	\$ 9,999
LOUISIANA				
Shreveport....	617	3,391	3,738	16,231
TEXAS				
Abilene.....	193	1,108	2,048	11,238
Amarillo.....	306	1,842	2,195	15,924
Austin.....	260	1,728	4,676	29,348
Beaumont.....	402	2,485	2,870	10,346
Corpus Christi.....	134	1,902	3,050	15,734
Dallas.....	2,181	14,341	25,039	93,020
El Paso.....	791	4,416	6,067	36,602
Fort Worth.....	822	4,599	6,514	30,951
Galveston.....	135	857	280	2,416
Houston.....	1,558	9,151	20,776	131,596
Lubbock.....	269	1,763	3,961	22,748
Port Arthur.....	173	1,259	462	7,698
San Antonio.....	1,493	10,920	5,167	35,979
Waco.....	273	1,520	3,302	9,437
Wichita Falls..	200	1,028	439	4,050
Total—17 cities..	10,234	65,533	\$92,335	\$483,317

VALUE OF CONSTRUCTION CONTRACTS AWARDED

(In thousands of dollars)

Area and type	June 1958	May 1958	June 1957	January—June 1958	January—June 1957
FIVE SOUTHWESTERN STATES ¹	\$ 496,248	\$ 335,143	\$ 408,120	\$ 1,953,736	\$ 1,888,428
Residential.....	143,185	156,659	107,399	764,433	655,138
All other.....	353,063	178,484	300,721	1,189,303	1,233,290
UNITED STATES.....	3,819,582	3,398,952	3,223,486	16,788,625	16,938,005
Residential.....	1,364,231	1,342,547	1,135,049	6,504,707	6,463,314
All other.....	2,455,351	2,056,405	2,088,437	10,283,918	10,474,691

¹ Arizona, Louisiana, New Mexico, Oklahoma, and Texas.

SOURCE: F. W. Dodge Corporation.