BUSINESS REVIEW

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FEDERAL FUNDS MARKET IN THE SOUTHWEST

Increased participation by individuals has broadened their interest in and understanding of the stock market and the Government securities market. The highly specialized Federal funds market, however, is not generally understood outside a very limited circle of participants. This unique market, which deals in a special kind of loanable funds, has an important role in bank and security dealer operations.

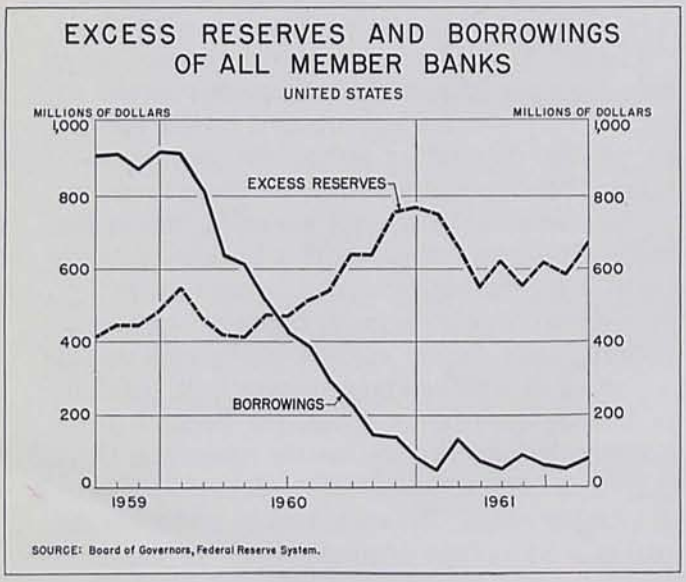
Federal funds are commercial bank reserves on deposit with the Federal Reserve banks in excess of those needed to meet reserve requirements. Member banks of the Federal Reserve System are required to hold a certain portion of their deposits as reserves either as vault cash or as deposits with their district Federal Reserve bank. In handling reserve positions, banks may be deficient some days and have excess reserves on others as long as the daily average requirement is met for the 1-week or 2-week period, depending on the class of bank — reserve city or country. Many country banks have excess reserves most of the time, but these banks are not major factors in the Federal funds market. The larger money market banks, which are the main participants in the market, often experience wide swings in deposits that create reserve deficiencies or excesses on a particular day. The Federal funds market enables banks with excess reserves to lend a portion of those reserves to banks with deficiencies or to others desiring such funds. Thus, the Federal funds market is one in which the participants, mainly banks and Government security dealers, borrow (purchase) and lend (sell) the excess reserves of member banks. The usual unit of trading in the Federal funds market is $1 million or more.

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS

The Federal funds market, which is peculiar to the United States, developed early in the 1920's as New York City banks sought a means of adjusting reserves to the vagaries of economic and financial activity. During that decade, the volume of Federal funds transactions rose substantially, with the market expanding to banks outside New York City and to nonbank institutions, primarily for dealer financing and the settlement of transactions involving short-term Government securities. Between 1925 and 1932, the average daily volume of Federal funds transactions ranged from $100 million to $250 million.

A marked reduction in credit demands and an expansive Federal Reserve policy during the depression of the 1930's assured the banks a large amount of excess reserves and severely reduced the demand for Federal funds. As a result, activity in the Federal funds market declined noticeably, and the market became largely regional in character. Legislation enacted during the 1930's brought a decline of the call money market and encouraged some increase in Federal funds activity in the World War II and early postwar periods, although reserve adjustments were handled mainly through sales of Government securities at prices supported by Federal Reserve action.

Following the Treasury-Federal Reserve "accord" in March 1951, the market for Federal funds expanded noticeably. Monetary policy resumed its flexible role, and, when credit conditions tightened during periods of inflationary pressure, banks had to depend more heavily on borrowing or divestment of securities to adjust their reserve positions. However, with prices of Government securities moving downward concomitantly, banks were reluctant to adjust reserves through the sale of such securities and, hence, turned to the Federal funds market. The average daily volume of Federal funds transactions rose from a range of $350 million to $450 million in the 1950-53 period to its present range of $1 billion to $2 billion.



With the passage of time, the Federal funds market has developed into an efficient market instrument for a variety of purposes. The market continues to be used mainly to adjust bank reserve positions; but the practice of settling Government securities transactions in Federal funds has brought Government security dealers into the market, and the financing needs of these dealers have further increased the participation by banks outside New York City.

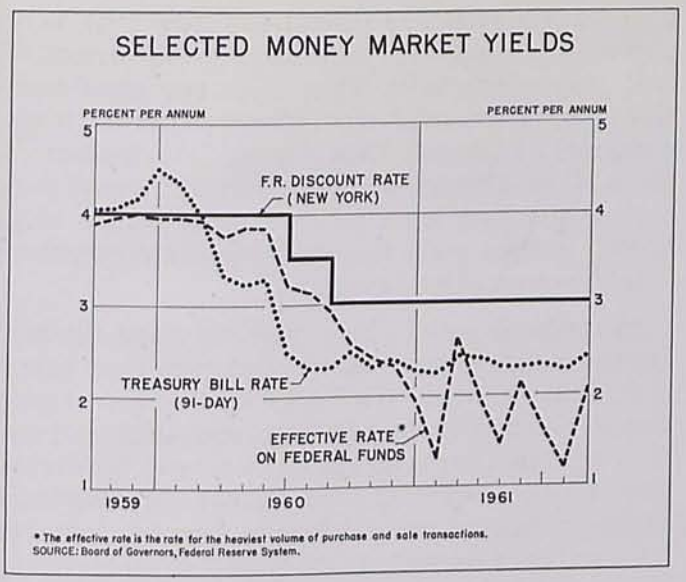
The preference for settling in Federal funds is explained by the fact that such funds are reserve balances and, thus, are immediately available to the recipient. In contrast, clearinghouse funds involve a check drawn on a commercial bank and are available only after the lag associated with the check collection schedule.

Lesser market participants include some foreign institutions and savings banks located within New York City and a small number of nonmember banks that participate via their correspondent banks. These institutions are rarely ever purchasers of Federal funds but, on occasion, have supplied a substantial volume of funds to the market.

In spite of the broader range of participants, the Federal funds market remains primarily a bank market. The member banks of the Federal Reserve System account for approximately 90 percent of the total transactions in the Federal funds market, with New York City being the center of market activity.

Since the larger banks account for the greater portion of the activity in Federal funds and since most large banks try to adjust their reserve positions daily, the demand for and supply of 1-day funds clearly dominate the market. Thus, more than 95 percent of all Federal funds transactions are for 1 day.

While the Federal funds rate generally reflects the demand for and supply of 1-day funds, the rate moves within fairly well-defined limits. The lower limit is set by the expense of negotiating and handling the transaction. The upper limit to the Federal funds rate is set



by the discount rate of the Reserve banks. A bank would not normally pay a rate for Federal funds that exceeds the cost of borrowing at the discount window.

In a period of heavy monetary restraint, the Federal funds rate is likely to be at or very close to the level of the discount rate. In a period of monetary ease, increased availability of reserves will usually bring the Federal funds rate below the discount rate for an extended period. However, on any one day or for a number of days, unanticipated strains in the market or an imbalance in the reserve picture may move the Federal funds rate toward or away from the discount rate despite the general pattern of policy.

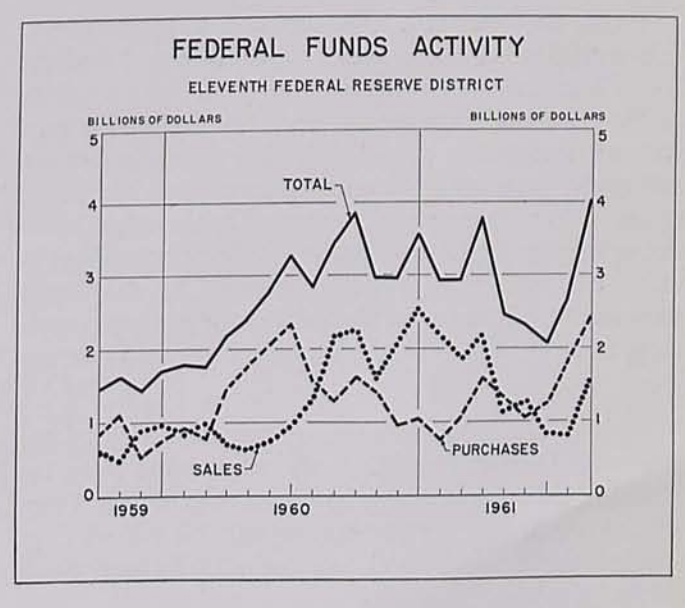
Reserve adjustments may also take place through the purchase or sale of securities, especially Treasury bills. Consequently, in addition to being closely related to the discount rate, the Federal funds rate is also related to rates on Treasury bills of shortest maturity. This relationship, however, is not as precise as that between the Federal funds rate and the discount rate. If the rate on the shortest maturity Treasury bills is above the Federal funds rate, banks which have other than 1-day excess reserves might find it more advantageous to invest in bills than to sell Federal funds. It is important that these excess reserves be available for more than 1 day, however, since a Treasury bill is usually an unprofitable investment unless it is held at least 2 or 3 days. The situation is reversed, of course, if bill rates are below the Federal funds rate. Nevertheless, as a result of traditional methods of operation, certain banks may prefer to adjust their reserve positions through one investment medium exclusively; and where such is the case, a considerable rate differential may exist without any noticeable shifting of funds.

In summary, a bank has several alternative sources of funds with which to meet reserve deficiencies. A bank's decision as to whether to purchase in the Federal funds market, borrow from its Reserve bank, or sell securities depends largely on the relative cost and availability of funds from each source.

Data on the participation by Eleventh District banks in the Federal funds market are gathered from reports to the Federal Reserve Bank of Dallas by major southwestern banks which probably account for nearly 90 percent of Federal funds activity in this region. Such reports indicate the characteristics of the Federal funds market in the Southwest and the important changes in that market.

District purchases and sales of Federal funds each averaged about $61 million per day from September 1959 through August 1961. Over the 24-month period, both total purchases and total sales exceeded $31 billion.

District Federal funds activity expanded sharply from late 1959 through mid-1960, with the total volume of purchases and sales more than doubling. Thereafter, the total volume slackened a little until August 1961. Between March 1960 and August 1961, however, the combined total of purchases and sales of Federal funds in this District had fluctuated between $2 billion and $4 billion per month. The stimulus to Federal funds activity in the 1960 period can be attributed, in part, to the rising level of excess reserves available to



the banks because of the shift in monetary policy. With Federal Reserve policy moving toward a position of active ease, free reserves of banks rose sharply, and Federal funds became more available. The increased supply lowered the rate below the cost of borrowing through the discount window, and it was often less expensive to adjust reserve positions through Federal funds transactions than by sales of short-term Government securities.

To a large extent, especially for particular banks in this District, the Federal funds market has served as an alternative to borrowing from the Federal Reserve. While the total volume of such purchases has by no means been tied directly to a reduction in borrowing from the Federal Reserve, a substantial portion has been related to the lower level of borrowing.

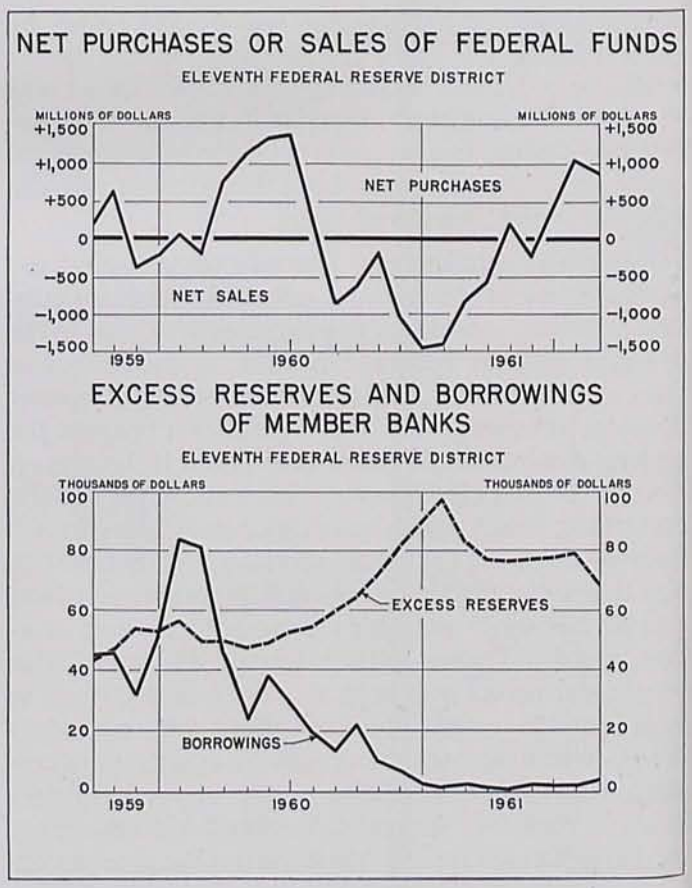
Another factor building up the volume of Federal funds activities has been the participation of banks in some of the larger-scale short-term Treasury financings. By means of their Treasury Tax and Loan Account privileges, many of the larger banks in this District have purchased the new issues heavily. However, the Tax and Loan Accounts did not remain with the banks as long as had been expected, and banks were faced with a need to borrow funds to meet reserve requirements. Another factor on the demand side which stimulated Federal funds activities was the needs of dealers to finance their enlarged portfolios of Government securities. With excess reserves available to the banks, this demand was translated into substantial sales of Federal funds, particularly in the latter half of 1960 and the first half of 1961.

From September 1959 through August 1961, Eleventh District banks were net purchasers of Federal funds in exactly half of the 2-year period and net sellers in the other half. The largest concentration of net purchasing occurred in early 1960, when some banks were still under pressure but excess reserves were beginning to show up with greater frequency. On the other hand, net selling by the District banks was most prominent in late 1960 and early 1961 in response to the dealer demands for Federal funds and before the heavy participation of banks in the new short-term Treasury financings.

Among the most interesting characteristics of the Eleventh District Federal funds market has been the concentration of purchases and sales with the San Francisco Federal Reserve District and with New York City. During the 2-year period, purchases of Federal funds from the San Francisco District and from New York City each accounted for approximately 40 percent of total District purchases. Thus, these two areas combined are the source of about 80 percent of the funds purchased by Eleventh District banks. Purchases from the St. Louis District and intra-Eleventh District purchases of Federal funds each accounted for an additional 5 percent, while the remaining districts supplied only 10 percent of total purchases.

In the same period, New York City and the San Francisco District were heavy purchasers from banks in the Dallas District. New York City absorbed 61 percent of Eleventh District Federal funds sales, and the San Francisco District purchased 29 percent, for a combined total of 90 percent. Intra-District sales amounted to approximately 5 percent of the total, and the remaining 5 percent were made to the other districts.

The only important net purchaser of Federal funds from the Eleventh District was New York City. The remaining districts, with the exception of the Ninth District, were net sellers of Federal funds to the Eleventh District. The large volume of transactions with New

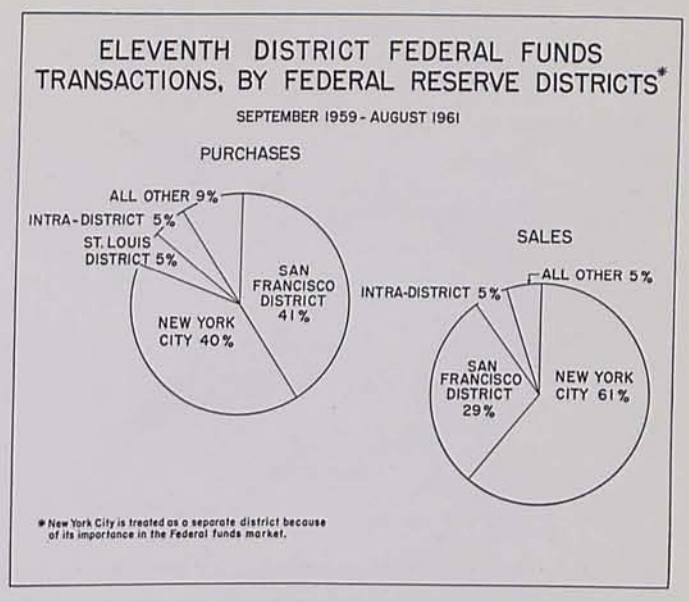


York City is explainable by the centering of money market activity and dealer accounts in that city. Moreover, foreign transactions are largely consummated there. The importance of the San Francisco District as a source of Federal funds for banks in the Eleventh District probably results, in part, from the time zone differential between the East and West Coasts. After banks in the East have closed, Federal funds transactions with banks on the West Coast can still be arranged, and District banks are able to defer reserve adjustments until late in the day.

Purchases and sales of Federal funds from the various Federal Reserve districts evidenced a changing pattern over the 24-month period. Purchases of Federal funds from New York City were reduced substantially, while sales to New York City expanded. Eleventh District purchases from the San Francisco District increased sharply, and sales to the San Francisco District moved moderately higher.

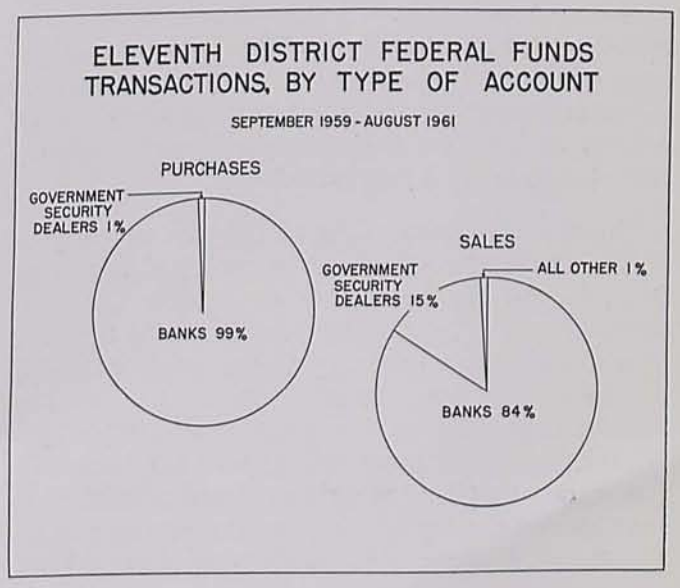
There were also some shifts as to the institutions with which the District banks completed transactions. District Federal funds transactions have been primarily with other banks, but there was a noticeable increase in sales of Federal funds to Government security dealers over the 2-year period. The proportion of sales to Government security dealers rose from slightly more than 2 percent in the last 4 months of 1959 to as much as 26 percent in the 4-month period from January through April 1961. This shift resulted primarily from the increased demand from Government security dealers to finance large inventories.

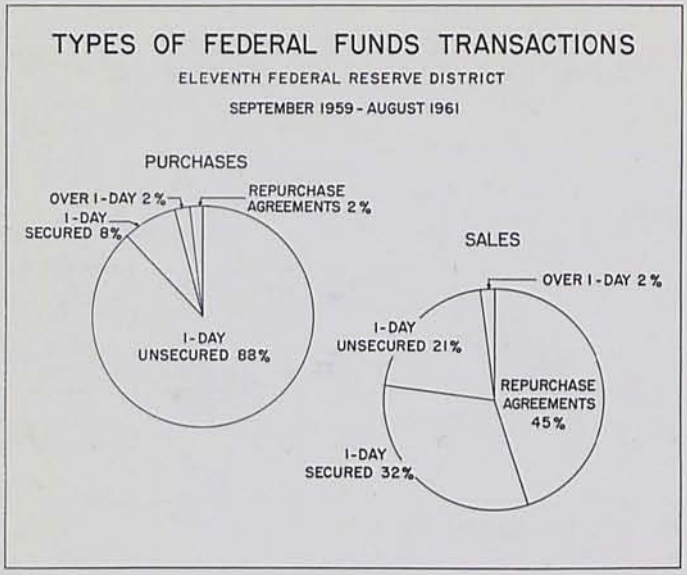
Federal funds transactions on a 1-day basis take three basic forms: an unsecured loan, a secured loan, or a repurchase agreement. The 1-day unsecured loan is referred to in the market as a "straight" transaction. It is the simplest arrangement, requiring a minimum of bookkeeping and no handling of securities. If the parties to the contract are located in the same Federal Reserve district, a telephone call to the regional bank, requesting a credit to the reserve account of the borrower and a debit to the reserve account of the seller, is all that is necessary. (Actually, written confirmation or instructions must follow the telephone conversation, and in New York City an exchange of checks is required.) The next day the procedure is reversed, with the reserve account of the borrower being debited and the reserve account of the seller credited. If the principals are located in different Reserve districts, the transaction can be handled through the wire-transfer facilities of the



Federal Reserve banks. No matter where the parties are located, however, the terms of the transactions and the interest rates to be charged are matters of individual negotiations between the parties. One-day unsecured loans provided 88 percent of District purchases between September 1959 and August 1961, while accounting for only 21 percent of District sales.

Until 1958, loans in Federal funds were subject to the limitation requiring that no loan could be made to a single borrower for an amount in excess of 10 percent of the bank's capital and surplus. However, according to an April 1958 ruling by the Comptroller of the Currency, this limitation is removed on loans to a single





borrower if the loan is secured by Government securities maturing within 18 months. A Federal funds transaction of this type is called a secured loan, with Government securities serving as collateral for the loan. The borrower places the Government securities in a custody account for the lender until the funds are repaid, and title to the securities is unchanged. Secured loans accounted for 8 percent of District purchases but 32 percent of sales by banks in this area.

The third type of Federal funds transactions is a repurchase agreement. In the repurchase agreement the lender of Federal funds buys a security, but the borrower of the Federal funds (the seller of the security) agrees to repurchase that security at a specified date in the future, usually 1 day, with settlement to be made in Federal funds. Title to the Government security actually passes to the seller of Federal funds (the purchaser of the security). Repurchase agreements accounted for 2 percent of District purchases but 45 percent of sales in the 2-year period.

The changing proportions of the various types of Federal funds transactions can be explained largely on the basis that bank purchases are usually 1-day unsecured loans to adjust reserve positions. In contrast, sales to Government security dealers are traditionally repurchase agreements. Some secured loans are used by both banks and dealers. The overwhelming importance of banks in District purchases supports this reasoning. The greater simplicity of unsecured and secured loans has reduced the former emphasis upon repurchase agreements. However, an analysis of the data gathered in the Eleventh District reveals that the proportion of total sales accounted for by repurchase agreements showed an especially sharp gain over the 2-year period. This rising proportion of repurchase agreements is probably a further reflection of the increased importance of Government security dealers on the demand side of the market.

One further characteristic of the District Federal funds market deserves some comment. The market is especially active in the reserve cities of Dallas, Houston, and San Antonio; but moderate activity is noticeable in Shreveport, El Paso, and Fort Worth. In terms of banks, there is even greater concentration. Only six banks account for almost 89 percent of District purchases. Sales are only a little less concentrated, with seven banks providing the funds for about 75 percent of the total sales.

The Federal funds market has proved to be an efficient instrument for short-term loans and borrowings. Banks have found it convenient as a means to adjust reserve positions or to carry a temporarily enlarged investment portfolio as long as the rate of return is above the cost of purchasing Federal funds. Bank purchases of Federal funds are, in a sense, a substitute for borrowing at the Reserve bank but, in another way, are greatly different. Discounts at the Reserve banks place new reserve funds into the banking system, while Federal funds activity merely changes the ownership of funds which already exist in the system. The broadening of the Federal funds market to include dealer financing has further increased the efficient utilization of existing funds.

The District banks apparently are finding the Federal funds market of considerable value and, with the knowledge gained by participating in it, can be expected to increase their use of the market. However, some restraining factors should be considered in forecasting increased use of the Federal funds market. If alternate sources of funds for reserve adjustment or yields on other investments become more attractive, banks may shift from the use of Federal funds transactions. The availability of reserves is always a limiting factor, and reserve positions can shift with the demand for credit and the monetary policies of a particular moment. Nevertheless, the Federal funds market has achieved a remarkable expansion over the post-accord period and seems destined for greater use by banks and security dealers.

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BUSINESS REVIEW

BUSINESS, AGRICULTURAL, AND FINANCIAL CONDITIONS

Primarily reflecting the effects of Hurricane Carla, the Texas industrial production index declined to 172 in September. Nonagricultural employment in the five southwestern states rose fractionally during the month, while unemployment in Texas decreased. The value of construction contracts in the Eleventh District states rose $17 million in August to reach $355 million.

Daily average crude oil production decreased in early October, after increasing slightly in September. Crude runs to District refinery stills declined in September but advanced moderately in early October. Drilling activity during September showed improvement.

Fall harvesting activities moved ahead rapidly throughout the District during October. Cotton production in the District states is estimated to be up from last year, while outturns of grain sorghums and rice are indicated to be lower. Output of citrus fruits is expected to be slightly higher than in 1960, with an increase in the orange crop more than offsetting a decrease in grapefruit production.

In the 4 weeks ended October 18, investments and deposits expanded, while loans declined moderately at the District's weekly reporting member banks. Member bank reserves increased in the 4 weeks ended October 4 and continued at a comfortable level.

District department store sales in September and early October were slightly above a year ago, while cumulative sales for the year showed no change from a year earlier. Department store inventories rose about seasonally during September and at the end of the month were slightly higher than at the same time in 1960. New car registrations in four major market areas in Texas declined substantially in September from both the previous month and a year ago. Cumulative registrations for the first 9 months of 1961 were 16 percent lower than in the comparable period last year.

Department store sales in the Eleventh District were adversely affected by Hurricane Carla during the first half of September but recovered in the latter part of the month to show a net gain of 1 percent over September 1960. However, after adjustment for seasonal trends and differences in the number of trading days, total sales were less than the record August level. The adjusted index of department store sales was 175 percent of the 1947-49 average in September, compared with 184 in August and 173 in September 1960. Sales in the District during the first 2 weeks of October were 4 percent above a year ago. Cumulative sales for the year through October 14 showed no change from the comparable year-earlier period.

District department store inventories rose about seasonally during September and at the end of the month were slightly higher than in September 1960. The seasonally adjusted index of stocks at the end of September was 191 percent of the 1947-49 average, up from 190 in August and 189 a year earlier. Orders outstanding at the end of September continued above a year ago, and new orders placed during the month were 5 percent greater than in September 1960.

DEPARTMENT STORE SALES

(Percentage change in retail value)

Area	September 1961 from August 1961	September 1961 from September 1960	9 months, 1961 from 1960
Total Eleventh District	—14	1	1
Corpus Christi	—14	4	—5
Dallas	—13	—2	0
El Paso	—4	—2	—5
Fort Worth	—20	5	1
Houston	—12	5	4
San Antonio	—17	1	3
Shreveport, La.	—10	8	4
Waco	—14	4	1
Other cities	—15	0	0

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
1960: September.....	166r	173r	200r	189
1961: July.....	158	178	173	182
August.....	181r	184r	190	190
September.....	168	175	202p	191p

r — Revised.
p — Preliminary.

New car registrations in September in four major Texas market areas — Dallas, Fort Worth, Houston, and San Antonio — declined substantially from both the preceding month and September 1960. Year-to-year declines ranged from 24 percent in Houston to 28 percent in San Antonio, while September registrations were down 30 percent to 40 percent from August in the four areas. Cumulative registrations in the four markets for the first 9 months of 1961 were 16 percent less than in the comparable period last year.

Harvesting activities progressed rapidly throughout most of the District during October in typical autumn weather. Scattered light to heavy showers at midmonth over much of the central and northern parts of Texas caused the only major interruption in field work.

More than one-half of the District's cotton crop has been baled, or about 10 percent ahead of a year ago. Growers in the Southern High Plains have been using all available means to harvest the crop as soon as the bolls open. An early-October frost resulted in light damage to late-crop cotton but also speeded drying of the lint and helped in defoliating plants throughout the western Plains areas. Cotton production in the District states, as of October 1, is estimated at 6.6 million bales, which is 30,000 bales below the month-earlier forecast but is 3 percent above the 1960 output. Month-to-month reductions in indicated output in Texas and Oklahoma more than offset improved crop prospects in Arizona and Louisiana. Increases over the year-earlier outturns are estimated for all of the District states except Arizona and Oklahoma.

Combining of grain sorghums in the Southwest is about three-fourths complete, although harvest of the High Plains crop has progressed slowly because of cool, damp weather. Grain sorghum production in the District states is indicated to be 12 percent below the 1960 output. The reduction in acreage as a result of the feed grain program has been partially offset by higher yields. Rice growers in Louisiana and Texas have taken advantage of the near-ideal working weather, and the major portion of the crop has been combined. Prior to Hurricane Carla, the southwestern rice crop was indicated to be 5 percent above a year ago but is now estimated to be 3 percent below the 1960 outturn. Virtually all of the reduction in prospective output occurred in Texas.

Over one-half of the District's peanut crop has been harvested. Heavy showers in the important Cross Timbers area slowed digging of nuts and resulted in some spoilage of peanut hay. Peanut production in the Southwest is indicated to be down slightly from a year ago. Harvest of pecans is under way in most of the major areas; however, output is estimated to be considerably smaller than in 1960. Heavy pecan losses occurred in south-central and upper coastal counties of Texas as a result of the hurricane.

More than 80 percent of the District's winter wheat crop has been drilled, but fields in the High Plains are badly in need of moisture. Over one-half of the winter oat acreage has been seeded, and the crop in the Cross Timbers and Blacklands is expected to make rapid progress as a result of moisture received in October.

Picking of citrus fruits has begun, and production in the Southwest is estimated at 14.3 million boxes, or 2 percent more than in 1960. Indications are that an increase in the output of oranges will more than offset a decrease in the grapefruit crop. Although the hurri-

CROP PRODUCTION

(In thousands of bushels)

Crop	TEXAS			FIVE SOUTHWESTERN STATES[1]		
	1961, estimated Oct. 1	1960	Average 1950–59	1961, estimated Oct. 1	1960	Average 1950–59
Cotton[2].....	4,550	4,346	3,910	6,615	6,445	5,894
Corn.....	26,264	27,522	38,502	41,760	44,456	61,366
Winter wheat....	86,856	78,826	32,891	208,042	206,434	104,031
Oats.....	26,190	24,492	26,202	43,600	39,623	42,034
Barley.....	9,528	9,518	3,549	39,706	37,184	18,239
Rye.....	368	310	240	1,103	1,285	933
Rice[3].....	11,676	12,927	13,331	25,416	26,209	25,846
Sorghum grain...	229,635	258,552	149,134	261,531	297,623	171,361
Flaxseed.....	1,610	1,112	501	1,610	1,135	580
Hay[4].....	2,261	2,166	1,821	6,895	6,631	5,408
Peanuts[5].....	228,000	223,725	173,368	389,200	392,161	278,320
Irish potatoes[6]...	2,738	2,465	1,662	6,263	5,572	3,817
Sweet potatoes[6]..	1,190	1,200	1,246	4,639	4,531	6,307
Pecans[5].....	33,000	31,000	32,270	84,700	95,000	69,367

[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.
SOURCE: United States Department of Agriculture.

cane caused only slight injury to trees in the Lower Valley of Texas, some fruit was lost or damaged.

Adequate moisture supplies throughout most of the north-central, central, and eastern parts of the District are expected to result in early growth of lush, cool-season vegetation. Meanwhile, extended late-summer grazing has prevailed throughout most of the Southwest. Only scattered ranges in far western areas and in limited sections in southern counties are in urgent need of moisture. Movement of cattle onto early wheat fields has started in the Northern High Plains of Texas.

Loans, investments, and time and savings deposits advanced at the Nation's weekly reporting member banks, while demand deposits adjusted declined moderately during the 4 weeks ended October 11. The money market remained relatively easy in most of this period, reflecting the comfortable reserve position of member banks, but a firmer tone developed in the last week. The rate on Federal funds showed considerable fluctuation, ranging from 3 percent on September 20 to ¾ percent on October 3.

The auction rate on 91-day Treasury bills rose moderately during early October but then declined to 2.325 percent for the issue dated October 26. The large yield differential between the 91-day and 182-day bills continued during this period, perhaps reflecting the sizable dealer awards of the 1-year bill issue. The intermediate- and long-term Government securities market was influenced by the multiple Treasury financings, with trading arising mainly in swap transactions.

Investments, demand deposits, and time and savings deposits expanded at the Eleventh District's weekly reporting member banks in the 4 weeks ended October 18, while loans (including interbank loans) declined moderately. Cash accounts and total assets moved to higher levels.

Gross loans (excluding interbank loans) rose $10.6 million in the 4 weeks; whereas, in the comparable period of 1960, such loans declined $7.0 million. An explanation of the internal breakdown of the loan advance this year is complicated by some major reclassification of accounts.

Total investments at the District's weekly reporting banks increased $96.1 million during the 4 weeks ended October 18. Holdings of Government securities increased $103.5 million, with $80.0 million centered in Treasury bills. Major District banks bid very heavily on the $2.5 billion of June Tax Anticipation bills which

CONDITION STATISTICS OF WEEKLY REPORTING MEMBER BANKS IN LEADING CITIES

Eleventh Federal Reserve District

(In thousands of dollars)

Item	Oct. 18, 1961	Sept. 20, 1961	Oct. 19, 1960
ASSETS			
Commercial and industrial loans	[1]1,670,158	1,577,858	1,547,007
Agricultural loans	38,977	39,049	33,384
Loans to brokers and dealers for purchasing or carrying:			
U. S. Government securities	274	20,326	3,274
Other securities	63,753	61,407	21,681
Other loans for purchasing or carrying:			
U. S. Government securities	3,198	4,674	8,793
Other securities	[1]161,973	229,063	174,751
Loans to domestic commercial banks	43,536	81,042	26,131
Loans to foreign banks	127	362	505
Loans to other financial institutions:			
Sales finance, personal finance, etc.	[1]90,728	90,422	98,410
Savings banks, mtge. cos., ins. cos., etc.	[1]199,582	157,741	122,368
Real-estate loans	235,355	233,499	206,211
All other loans	[1]721,304	760,381	753,250
Gross loans	3,228,965	3,255,824	2,995,765
Less reserves and unallocated charge-offs	54,594	54,993	55,208
Net loans	3,174,371	3,200,831	2,940,557
Treasury bills	185,209	105,208	54,987
Treasury certificates of indebtedness	55,563	55,564	30,821
Treasury notes and U. S. Government bonds, including guaranteed obligations, maturing:			
Within 1 year	243,060	228,995	109,537
After 1 but within 5 years	689,343	663,136	777,271
After 5 years	427,769	444,588	323,281
Other securities	413,534	420,901	356,169
Total investments	2,014,478	1,918,392	1,652,066
Cash items in process of collection	541,806	531,811	519,291
Balances with banks in the United States	495,239	534,406	564,765
Balances with banks in foreign countries	2,133	2,457	2,179
Currency and coin	58,331	59,890	52,431
Reserves with Federal Reserve Bank	591,512	555,084	518,510
Other assets	192,603	182,077	196,827
TOTAL ASSETS	7,070,473	6,984,948	6,446,626
LIABILITIES AND CAPITAL ACCOUNTS			
Demand deposits			
Individuals, partnerships, and corporations	3,025,055	3,030,947	2,953,850
Foreign governments and official institutions, central banks, and international institutions	4,091	3,236	
United States Government	237,718	124,817	72,108
States and political subdivisions	162,259	191,923	178,949
Banks in the United States, including mutual savings banks	1,134,769	1,105,168	1,050,521
Banks in foreign countries	13,007	13,432	21,505
Certified and officers' checks, etc.	45,581	51,004	45,461
Total demand deposits	4,622,480	4,520,527	4,322,394
Time and savings deposits			
Individuals, partnerships, and corporations			
Savings deposits	789,518	780,811	1,154,083
Other time deposits	565,281	560,727	
Foreign governments and official institutions, central banks, and international institutions	1,008	1,008	
U. S. Government, including postal savings	7,077	7,077	10,307
States and political subdivisions	287,654	293,680	226,525
Banks in the United States, including mutual savings banks	6,369	6,425	10,395
Banks in foreign countries	1,200	1,200	
Total time and savings deposits	1,658,107	1,650,928	1,401,310
Total deposits	6,280,587	6,171,455	5,723,704
Bills payable, rediscounts, etc.	94,000	126,750	50,169
All other liabilities	95,395	89,755	109,447
Capital accounts	600,491	596,988	563,306
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	7,070,473	6,984,948	6,446,626

[1] Because of recent reclassifications, these data are not strictly comparable with prior data.

NOTE. — As a result of changes in call report instructions, additional information is available, effective April 26, 1961, on the deposit structure of member banks. Comparable year-earlier figures will be shown when they become available.

RESERVE POSITIONS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. In thousands of dollars)

Item	4 weeks ended Oct. 4, 1961	5 weeks ended Sept. 6, 1961	4 weeks ended Oct. 5, 1960
RESERVE CITY BANKS			
Total reserves held	580,083	571,397	550,574
With Federal Reserve Bank	538,679	531,993	541,010
Currency and coin	41,404	39,404	9,564
Required reserves	574,031	563,882	546,005
Excess reserves	6,052	7,515	4,569
Borrowings	107	0	8,000
Free reserves	5,945	7,515	—3,431
COUNTRY BANKS			
Total reserves held	518,893	510,771	451,938
With Federal Reserve Bank	412,896	409,127	422,923
Currency and coin	105,997	101,644	29,015
Required reserves	452,237	449,125	392,765
Excess reserves	66,656	61,646	59,173
Borrowings	1,134	3,176	13,176
Free reserves	65,522	58,470	45,997
ALL MEMBER BANKS			
Total reserves held	1,098,976	1,082,168	1,002,512
With Federal Reserve Bank	951,575	941,120	963,933
Currency and coin	147,401	141,048	38,579
Required reserves	1,026,268	1,013,007	938,770
Excess reserves	72,708	69,161	63,742
Borrowings	1,241	3,176	21,176
Free reserves	71,467	65,985	42,566

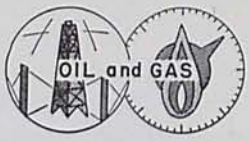
NOTE. — Beginning November 24, 1960, all currency and coin held by member banks allowed as reserves; during the period December 1, 1959-November 23, 1960, only part of such holdings was allowed.

were offered on September 12, and the District ranked behind only New York and Chicago in offers accepted. For the reopened 3¼-percent May 1963 note offering of $2.0 billion, District subscriptions accepted ranked eighth in the System. However, for the $2.0 billion of 364-day Treasury bills dated October 16, 1961, the District banks' purchases were tenth among all districts.

Non-Government security holdings of the District's weekly reporting banks declined slightly during the 4-week period. In the corresponding period in 1960, total investments decreased $12.5 million, with a large decline in United States Government securities more than offsetting a significant increase in holdings of non-Government securities.

In the 4 weeks ended October 18, total demand deposits expanded $102.0 million at the weekly reporting member banks in the District. A significant gain was recorded in demand deposits of the United States Government, as banks credited Tax and Loan Accounts for some of their major purchases of new Treasury securities. Time and savings deposits increased $7.2 million, primarily as a result of an increase in deposits of individuals, partnerships, and corporations. Such deposits of states and political subdivisions moved somewhat lower.

Total reserves increased $16.8 million at the District member banks during the 4 weeks ended October 4. Excess reserves advanced at country banks but declined at reserve city banks. Borrowings remained at a nominal level throughout the District.



New supplies of crude oil exceeded demand in September, resulting in a slight rise in national crude oil inventories. In early October, however, District and national crude oil production was reduced, and crude oil imports declined; but crude runs to District and national refinery stills, recovering from the effects of Hurricane Carla, advanced moderately. The Texas crude oil allowable for November has been established at 8 producing days for the seventh consecutive month, and Louisiana and New Mexico have retained their October schedules. Nevertheless, a slight increase is expected for District daily average output in November because of the fewer calendar days in the month.

District drilling activity showed improvement during September as both total well completions and total footage drilled increased moderately. However, the number of active rotary rigs declined about 5 percent.

Refined product markets weakened in September but recovered significantly in early October. The seasonally adjusted demand for the four major products declined to 102 percent of the 1957-59 base in September from 109 percent in August, as greater than seasonal reductions were recorded for each of the products, especially light fuel oils. In early October, however, the demand for the major pertroleum products rose more than seasonally, paced by significant advances in both light and heavy fuel oil consumption. Inventories of the major refined products advanced only slightly in September, primarily because of the reduction in refinery activity. The upward trend continued in early October, with

NATIONAL PETROLEUM ACTIVITY INDICATORS

(Seasonally adjusted indexes, 1957-59 = 100)

Indicator	September 1961p	August 1961p	September 1960
CRUDE OIL RUNS TO REFINERY STILLS (daily average)	102	106	104
DEMAND (daily average)			
Gasoline	102	105	103
Kerosene	138	197	126
Distillate fuel oil	101	126	97
Residual fuel oil	92	98	95
Four refined products	102	109	102
STOCKS (end of month)			
Gasoline	106	106	109
Kerosene	108	107	107
Distillate fuel oil	100	96	101
Residual fuel oil	82	80	82
Four refined products	101	99	102

p — Preliminary.
SOURCES: American Petroleum Institute.
United States Bureau of Mines.
Federal Reserve Bank of Dallas.

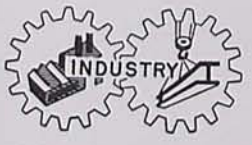
MARKETED PRODUCTION OF NATURAL GAS

(In millions of cubic feet)

Area	Second quarter 1961	First quarter 1961	Second quarter 1960
Louisiana	739,700	809,300	658,300
New Mexico	189,600	206,300	198,200
Oklahoma	183,500	228,900	180,000
Texas	1,446,400	1,580,000	1,418,200
Total	2,559,200	2,824,500	2,454,700

SOURCE: United States Bureau of Mines.

both refined product supply and demand increasing. Prices for light fuel oils were steady in the interior markets, while kerosene and distillate fuel oil prices on the Gulf Coast were exceptionally firm. However, retail gasoline price reductions were noted in many areas of the country.



Hurricane Carla was primarily responsible for the reduction of the Texas industrial production index to 172 in September, the lowest figure since February 1961. The decline of 7 points from the August level resulted from the reduction in the manufacturing sector; durables declined almost 5 percent, and nondurables, over 8 percent. Decreases of more than 8 percent from August were registered in the output of petroleum and coal, chemical products, machinery (except electrical), and other nondurable goods. Paper products showed a significant output advance, and mining output rose slightly. With production in most major sectors back to normal by the end of September, a substantial recovery in the index is likely for October.

Total nonagricultural employment in the five southwestern states in September totaled 4,504,300, or 13,900 above the previous month and fractionally above a year ago. Associated principally with the opening of schools, a rise of 31,000 in government employment offset moderate declines in construction and mining employment, which were partially affected by Hurricane Carla. The withdrawal of students from the labor force to resume school and the return of school employees to work were primary factors in the September decrease of 12,600 in Texas unemployment. September unemployment in the State was 5.1 percent of the labor force, compared with 5.4 percent a month earlier and 4.6 percent a year ago. Insured unemployment in Texas declined in September and early October except in the week ended September 20, when unemployment increased as a result of storm-induced work interruptions.

The value of construction contracts in the District states increased $17 million in August to $355 million. Increases in residential and nonresidential building offset a decline in public works and utilities during the month, as well as in the January-August period. Cumulative contracts for the first 8 months of 1961, at $2,769 million, were $92 million above the same period in 1960.

INDUSTRIAL PRODUCTION

(Seasonally adjusted indexes, 1947-49 = 100)

Area and type of index	September 1961p	August 1961	July 1961	September 1960
TEXAS				
Total industrial production	172	179	178r	174
Total manufactures	209	225	225	216
Durable manufactures	249	260	257	252
Nondurable manufactures	191	209	211r	200
Mining	136	135	133r	132
UNITED STATES				
Total industrial production	169	171	170	162
Total manufactures	168	170	169	160r
Durable manufactures	171	175	175r	166
Nondurable manufactures	170	169	168r	159
Mining	129	129	129	127
Utilities	314	310	306r	293r

p — Preliminary.
r — Revised.
SOURCES: Board of Governors of the Federal Reserve System.
Federal Reserve Bank of Dallas.

NONAGRICULTURAL EMPLOYMENT

Five Southwestern States[1]

Type of employment	Number of persons: September 1961e	August 1961	September 1960r	Percent change Sept. 1961 from: Aug. 1961	Sept. 1960
Total nonagricultural wage and salary workers	4,504,300	4,490,400	4,497,400	0.3	0.2
Manufacturing	774,300	774,200	785,900	.0	—1.5
Nonmanufacturing	3,730,000	3,716,200	3,711,500	.4	.5
Mining	242,300	245,100	244,500	—1.2	—.9
Construction	300,500	308,400	319,300	—2.6	—5.9
Transportation and public utilities	389,500	391,600	404,600	—.5	—3.7
Trade	1,102,200	1,102,200	1,102,900	.0	—.1
Finance	223,400	224,700	215,700	—.6	3.6
Service	607,800	610,900	585,900	—.5	3.7
Government	864,300	833,300	838,600	3.7	3.1

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

VALUE OF CONSTRUCTION CONTRACTS

(In millions of dollars)

Area and type	August 1961p	July 1961	August 1960	January—August: 1961p	1960
FIVE SOUTHWESTERN STATES[1]	355	338	342	2,769	2,672
Residential building	161	139	133	1,129	1,077
Nonresidential building	98	94	136	873	793
Public works and utilities	96	104	73	768	801
UNITED STATES	3,543	3,529	3,295	25,248	24,399
Residential building	1,589	1,502	1,433	10,844	10,347
Nonresidential building	1,087	1,154	1,177	8,205	8,104
Public works and utilities	866	873	685	6,198	5,948

[1] Arizona, Louisiana, New Mexico, Oklahoma, and Texas.
p — Preliminary.
NOTE. — Details may not add to totals because of rounding.
SOURCE: F. W. Dodge Corporation.

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]			
		Percent change from			Annual rate of turnover		
	September 1961	Aug. 1961	Sept. 1960	Sept. 30, 1961	Sept. 1961	Aug. 1961	Sept. 1960
ARIZONA							
Tucson	$ 241,639	1	6	$ 135,507	21.5	21.2	22.6r
LOUISIANA							
Monroe	86,314	—4	4	49,521	21.1	21.4	19.9
Shreveport	313,601	—3	—4	170,588	21.8	22.1	21.8
NEW MEXICO							
Roswell	46,702	1	7	34,799	16.2	16.0	18.0
TEXAS							
Abilene	93,298	—5	—3	68,609	16.6	17.5	17.9
Amarillo	213,062	—10	0	119,874	21.8	24.1	22.6
Austin	223,928	—15	11	152,966	17.6	20.8	16.8
Beaumont	163,993	—1	8	97,483	20.2	20.2	19.0
Corpus Christi	195,282	—9	1	109,029	21.2	23.5	21.6
Corsicana	18,174	6	—2	19,307	11.4	10.9	12.0
Dallas	2,865,440	—6	2	1,181,674	29.0	30.5	29.3
El Paso	314,188	—12	—4	166,787	22.6	25.6	24.1
Fort Worth	762,862	—6	—1	385,083	24.0	25.6	25.2
Galveston	80,184	—21	3	59,149	16.2	20.2	15.8
Houston	2,605,827	—10	2	1,340,468	23.5	26.4	24.4
Laredo	26,993	2	0	21,591	15.0	14.5	15.1
Lubbock	177,700	2	—3	109,181	19.6	19.0	20.4
Port Arthur	62,328	—5	1	43,141	17.2	17.8	17.5
San Angelo	54,812	—1	—1	48,135	13.7	13.8	14.2
San Antonio	604,235	—11	0	383,405	18.8	20.4	19.7
Texarkana[2]	23,661	3	3	16,598	17.0	16.3	16.4
Tyler	82,928	—6	0	61,426	16.3	17.4	17.5
Waco	111,894	6	4	67,179	19.8	18.4	18.7
Wichita Falls	113,031	—2	3	103,991	13.3	13.9	13.8
Total—24 cities	$9,482,076	—8	2	$4,945,491	23.0	24.8	23.6r

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

[2] These figures include only two banks in Texarkana, Texas. Total debits for all banks in Texarkana, Texas-Arkansas, including one bank located in the Eighth District, amounted to $54,592,000 for the month of September 1961.

r — Revised.

CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(In thousands of dollars)

Item	Oct. 18, 1961	Sept. 20, 1961	Oct. 19, 1960
Total gold certificate reserves	706,358	664,128	647,121
Discounts for member banks	1,240	4,195	10,419
Other discounts and advances	116	58	1,276
U. S. Government securities	1,136,585	1,113,228	1,079,017
Total earning assets	1,137,941	1,117,481	1,090,712
Member bank reserve deposits	966,562	911,537	902,644
Federal Reserve notes in actual circulation	851,669	850,216	817,069

DAILY AVERAGE PRODUCTION OF CRUDE OIL

(In thousands of barrels)

Area	September 1961p	August 1961p	September 1960	Percent change from August 1961	Percent change from September 1960
ELEVENTH DISTRICT	2,941.3	2,887.2	2,883.9	1.9	2.0
Texas	2,564.3	2,504.7	2,501.0	2.4	2.5
Gulf Coast	465.8	457.7	444.3	1.8	4.8
West Texas	1,143.3	1,112.1	1,130.8	2.8	1.1
East Texas (proper)	128.9	127.7	131.6	.9	—2.1
Panhandle	108.4	106.8	104.5	1.5	3.7
Rest of State	717.9	700.4	689.8	2.5	4.1
Southeastern New Mexico	268.3	271.3	252.9	—1.1	6.1
Northern Louisiana	108.7	111.2	130.0	—2.2	—16.4
OUTSIDE ELEVENTH DISTRICT	4,197.9	4,164.6	4,086.7	.8	2.7
UNITED STATES	7,139.2	7,051.8	6,970.6	1.2	2.4

p — Preliminary.

SOURCES: American Petroleum Institute.
United States Bureau of Mines.
Federal Reserve Bank of Dallas.

CONDITION STATISTICS OF ALL MEMBER BANKS

Eleventh Federal Reserve District

(In millions of dollars)

Item	Sept. 27, 1961	Aug. 30, 1961	Sept. 28, 1960
ASSETS			
Loans and discounts	5,388	5,175	4,944
United States Government obligations	2,994	2,713	2,426
Other securities	1,022	946	821
Reserves with Federal Reserve Bank	894	913	908
Cash in vault[e]	172	164	153
Balances with banks in the United States	1,150	1,024	1,047
Balances with banks in foreign countries[e]	3	3	2
Cash items in process of collection	574	500	520
Other assets[e]	303	271	283
TOTAL ASSETS[e]	12,500	11,709	11,104
LIABILITIES AND CAPITAL ACCOUNTS			
Demand deposits of banks	1,274	1,142	1,172
Other demand deposits	7,048	6,560	6,393
Time deposits	2,871	2,790	2,332
Total deposits	11,193	10,492	9,897
Borrowings[e]	97	77	99
Other liabilities[e]	150	111	146
Total capital accounts[e]	1,060	1,029	962
TOTAL LIABILITIES AND CAPITAL ACCOUNTS[e]	12,500	11,709	11,104

e — Estimated.

GROSS DEMAND AND TIME DEPOSITS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. In millions of dollars)

Date	GROSS DEMAND DEPOSITS			TIME DEPOSITS		
	Total	Reserve city banks	Country banks	Total	Reserve city banks	Country banks
1959: September	7,779	3,858	3,921	2,113	1,087	1,026
1960: September	7,577	3,814	3,763	2,317	1,170	1,147
1961: May	7,643	3,743	3,900	2,736	1,382	1,354
June	7,752	3,829	3,923	2,745	1,380	1,365
July	7,770	3,832	3,938	2,757	1,384	1,373
August	7,759	3,820	3,939	2,774	1,396	1,378
September	7,889	3,910	3,979	2,787	1,404	1,383

BUILDING PERMITS

Area	NUMBER		VALUATION (Dollar amounts in thousands)		Percent change		
					Sept. 1961 from		9 months, 1961 from 1960
	Sept. 1961	9 mos. 1961	Sept. 1961	9 mos. 1961	Aug. 1961	Sept. 1960	
ARIZONA							
Tucson	843	8,118	$ 2,511	$ 35,948	—9	—7	23
LOUISIANA							
Shreveport	560	10,782	1,205	27,714	—62	—53	35
TEXAS							
Abilene	104	1,085	934	12,300	—53	—76	—29
Amarillo	368	2,619	3,700	33,432	—44	79	25
Austin	339	3,139	3,875	44,159	—39	32	28
Beaumont	266	2,736	952	10,970	—23	—44	—18
Corpus Christi	304	2,816	973	20,149	—87	—4	119
Dallas	2,113	20,744	12,479	156,033	—35	14	45
El Paso	591	5,339	5,640	53,123	—3	19	47
Fort Worth	702	5,692	4,049	42,133	39	—9	14
Galveston	136	1,244	246	4,527	—38	—64	—18
Houston	5,448	16,943	15,959	195,583	—31	—51	—15
Lubbock	264	2,106	3,234	32,819	—11	45	7
Port Arthur	288	1,957	507	6,073	—24	—59	—29
San Antonio	1,099	10,753	5,101	40,940	—16	—28	—13
Waco	301	2,435	803	11,810	25	—22	—9
Wichita Falls	152	2,540	1,289	17,056	—13	17	—20
Total—17 cities	13,878	101,048	$63,457	$744,769	—32	—23	8