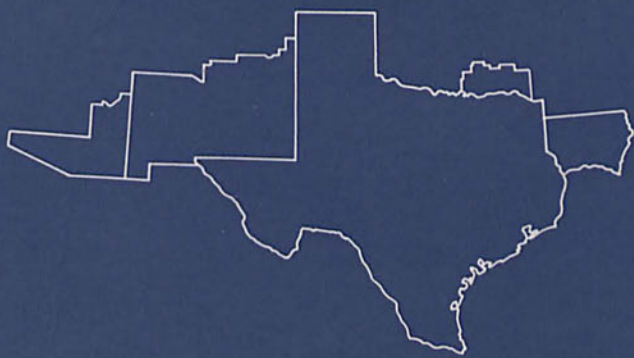
business review



january 1968

FEDERAL RESERVE
BANK OF DALLAS

Annual Report Issue

contents

the hesitant economy

national situation

The year 1967 was a period of slow growth in the output of goods and services relative to the gains during most of the years since the current cyclical upswing began in 1961. As compared with the booming, overexpansive surges that occurred in 1965 and 1966, particularly the latter, the past year's economic advance was quite moderate indeed. In a sense, the slower pace of economic activity during 1967 was an adjustment from the overly ebullient upswing that characterized the previous 3 years. An especially disquieting note was the fact that the uptrend in prices accelerated markedly in the second half of 1967, and the "real" growth of the economy was substantially reduced last year.

As the early months of the year unfolded, the mood of the business community became more cautious, and expectations regarding sales and profits in 1967 were reduced. During the year, a more than generous measure of uncertainty was provided by the Viet-Nam war, social unrest, work stoppages, rapidly rising prices, international monetary changes, and the potential course of domestic monetary and fiscal policy. With the resumption of a more vigorous and balanced growth in the economy during the latter part of 1967, business sentiment appeared to have taken on a more optimistic note.

The slowing in the rate of economic advance in 1967, which was particularly pronounced during the first half of the year, was due primarily to weakness in the private sector, as both consumers and businessmen reduced the pace of their spending. A reduction in the rate of inventory accumulation during the first half of 1967 from the very high rates reached during the latter part of 1966 was a key element in the sluggish performance of the private sector. Efforts to improve the balance between inventories and sales were reflected in a slackening in the growth of employment, production, and income. On the other hand, the public sector showed further growth, as spending by all levels of government rose.

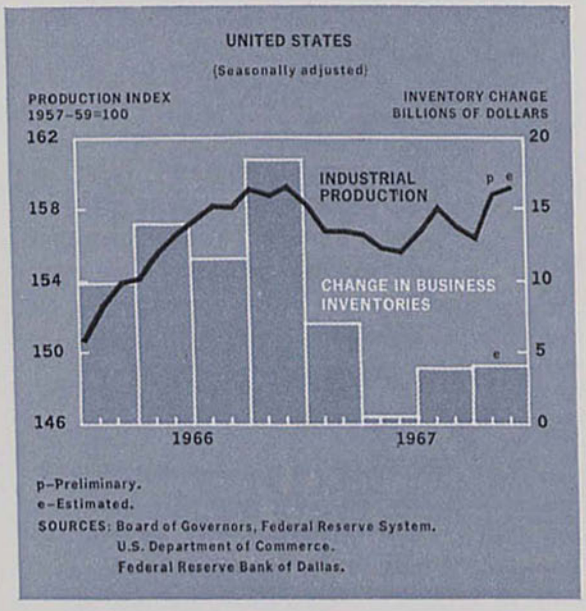
economic developments

Despite the rather lethargic performance of the economy during the first half of 1967, GROSS NATIONAL PRODUCT for the year averaged around $785 billion, reflecting an increase of about 5.6 percent. This gain compares with a rise of 8.7 percent in 1966. However, the growth in the "real" output of goods and services in the past year (that is, after adjustment for price changes) was particularly disappointing. About 60 percent of the year-to-year rise in GNP was due to price increases, and real growth was less than 3 percent — well below the 5.8-percent advance achieved in 1966, when prices also were rising significantly.

The uneven pace of economic activity during 1967 is evident in the fact that more than 70 percent of the rise in GNP occurred in the last half of the year. The first-quarter current-dollar increase of $4.2 billion in GNP, on an annual-rate basis, was so slight that such expressions as "minirecession" and "pause in business activity" appeared in the business press. Following the slight advances in the first part of the year, the gain in GNP in the last two quarters averaged in excess of $16 billion.

The reduced rate of accumulation of *business inventories* in the first half of 1967 was a heavy depressant on economic activity. With final demand failing to match the rising output of goods during the latter part of 1966, business-

PRODUCTION AND INVENTORIES



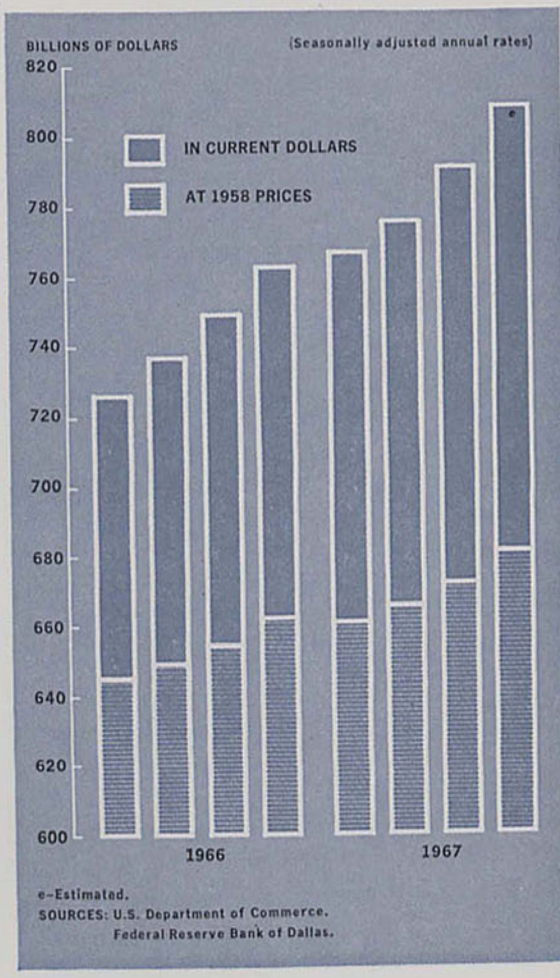
men adjusted production schedules early last year to more realistic levels. Business inventory accumulation was reduced from an annual rate of \$18.5 billion in the final quarter of 1966 to a rate of less than \$1 billion by the second quarter of 1967.

During the period of rapid inventory adjustment, the inflow of new orders to manufacturers, particularly for durable goods, was markedly lower than in the closing months of 1966. The principal expansive force in new orders was defense goods, which presently pose little inventory adjustment problem. On the other hand, ordering of consumer durables (such as automobiles, major kitchen appliances, and television sets and radios) and of some types of industrial equipment was relatively weak.

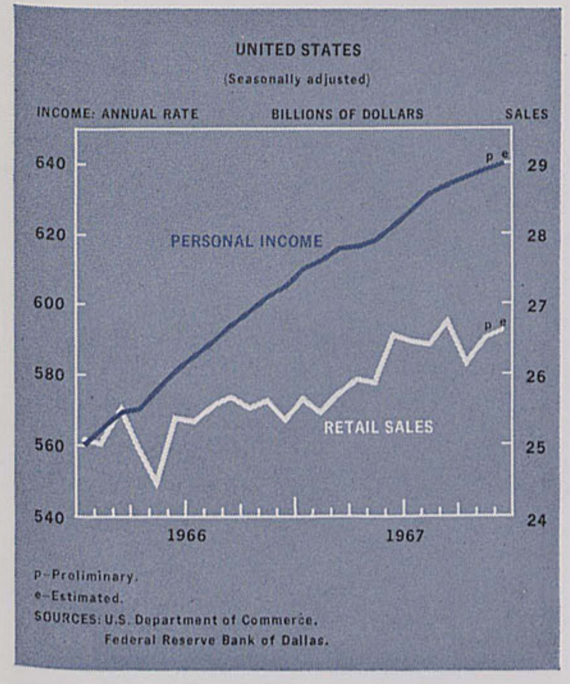
The rather substantial negative impact on GNP of a slowing rate of inventory buildup came to an end around mid-1967 as the rate of inventory accumulation began to rise — a development that exerted a positive influence on the economy. The resumption of a more rapid pace in stock building occurred despite the fact that manufacturers' inventory-shipments ratios remained at historical highs. Larger increases in inventories might well have occurred in the final months of last year except for the dampening effect of strikes in the automobile and copper industries. For 1967 as a whole, inventories accounted for about \$4 billion in total GNP, as compared with \$13.4 billion in 1966.

Another important factor contributing to the moderate growth in the economy in 1967 was a relatively small rise, around 3 percent, in *business fixed investment.* Such investment in 1966 rose 12.8 percent. All of the past year's

GROSS NATIONAL PRODUCT



PERSONAL INCOME AND RETAIL SALES



small increase in business fixed investment was centered in spending for producers' durable equipment, since outlays for structures actually dipped below the 1966 level. Business fixed investment has been on an uptrend since 1962, and the tapering in outlays reflects several developments — the completion of many projects begun in earlier periods, a slackening in the rate of plant and equipment utilization, and a less buoyant profits outlook. After averaging nearly 91 percent in 1966, capacity utilization by manufacturing firms eased to about 85 percent during 1967 as new capacity came on stream and manufacturing output declined slightly from the 1966 level. At the year-end, most manufacturers were operating at rates well under optimum levels.

Consumer purchases of goods and services were relatively restrained last year, rising at about the same rate as total GNP — 5.6 percent. The most vigorous gain in spending was for services, exceeding the 1966 rise of nearly 7 percent. Much of the 1967 advance was due to price increases. In contrast to outlays for services, consumer purchases of both durable and nondurable goods showed considerably more moderate gains than in 1966, with durable goods turning in the weaker performance. An important element in the lack of buoyancy in durable goods spending was the absence of any significant enthusiasm on the part of the public to purchase new automobiles. Partly reflecting the effects of a strike in the fall, production of U.S.-made cars last year declined 14 percent to total about 7.4 million units.

The gain in personal income in 1967, exceeding 7 percent, was sufficiently large to support a more rapid increase in spending. However, the consumer chose to step up his savings. Savings comprised around 7 percent of disposable personal income last year — the highest proportion since 1958 and well above the 5.9 percent in 1966. A return to the more usual savings pattern could quickly and sharply boost consumer spending.

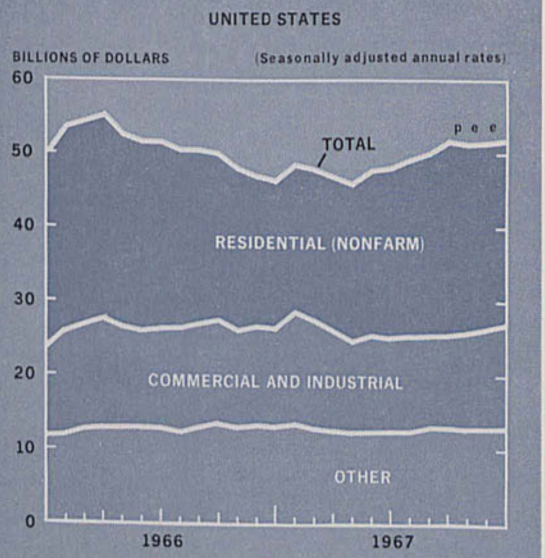
The reversal of the downtrend in *residential construction* was a particularly important development last year. Although investment in housing in 1967 totaled only slightly above that in 1966, the slight gain contrasts with a sharp slide of 9.6 percent between 1965 and 1966. Private housing starts, which had dipped to the World War II low in late 1966, rose steeply from their depressed levels and, by November 1967, had reached an annual rate of nearly 1.6 million units — a rate exceeding that for every month since March 1966.

The strong comeback made by housing construction appeared to reflect elements other than the increased availability of mortgage funds from traditional lenders. While the abrupt but short-lived decline in residential building in 1966 no doubt resulted in some unsatisfied housing demands last year, the continuing influx of young adults probably provided additional impetus. Rental vacancy rates moved down further during 1967 and, by midyear, were the lowest in several years. The lower vacancy rates and rising demand for housing have placed upward pressures on rental rates, and advancing construction costs may have hastened the decision of many prospective homeowners to buy or build.

Government purchases of goods and services rose well over 14 percent last year, which exceeds by a substantial margin the gain in the private sector. Spending by the Federal Government dominated the rise in public spending. The overwhelming bulk of Federal expenditures was accounted for by spending for defense purposes, much of which was related to the Viet-Nam war. The rate of defense spending advanced more rapidly during the first half of 1967 than in the later months, providing strength at the time when the private sector was relatively weak. Late in the year, the private sector was strengthening, while the increase in defense activity was slackening. For the year, defense spending rose one-fifth, or about the same as the 1966 gain. After showing a small decline in 1966, nondefense expenditures of the Federal Government increased more than 6 percent in the past year as spending on education, health, welfare, and other Government programs advanced. Continuing a long-term trend, outlays by state and local governments also rose strongly in 1967.

The slowing in economic activity last year was especially noticeable in the case of INDUSTRIAL PRODUCTION. After averaging 9 percent higher than a year earlier in 1966, output in 1967 averaged only slightly above that in 1966. Manufacturing activity barely managed to hold its own, while mining and utilities showed modest gains. Mining output was buoyed briefly by the increased demand for U.S. petroleum as a result of the Middle East war, although a strike in the copper industry in the latter part of the year retarded growth. A rising output of defense goods gave important

NEW PRIVATE CONSTRUCTION



p–Preliminary.
e–Estimated.
SOURCES: U.S. Department of Commerce.
Federal Reserve Bank of Dallas.

strength to manufacturing, and production of defense equipment during 1967 averaged about 18 percent higher than in the previous year. In contrast, production of business equipment trended downward until late in the year, when it began to rise again.

Labor markets generally remained strong, as EMPLOYMENT expanded about in line with the growth in the civilian labor force. The unemployment rate in 1967 rose above 4.0 percent on a few occasions but, for the year, averaged 3.9 percent, or little different from the 1966 average. The buildup in the Armed Forces absorbed some workers who otherwise would have been entering the civilian labor force. As in other recent years, unskilled and inexperienced workers encountered the most difficulty in finding employment.

PRICE INCREASES accelerated last year despite the rather moderate pace of economic activity. Wage settlements in manufacturing and some nonmanufacturing industries have been quite large and likely will provide the basis for wage and salary adjustments in other situations. The wholesale prices of industrial commodities, which had been stable from February through July, began to move upward at a fast pace in August. Only the weakness in prices for farm products kept the total wholesale price index from rising throughout the year.

Consumer prices increased at an annual rate of 2.7 percent during the first half of 1967 but rose at a 3.9-percent rate after June. In the later months of last year, price increases for a wide variety of materials and semifinished and finished products were announced. It is possible that the full impact of these increases was not reflected in 1967, and the momentum of advancing prices could well extend into 1968.

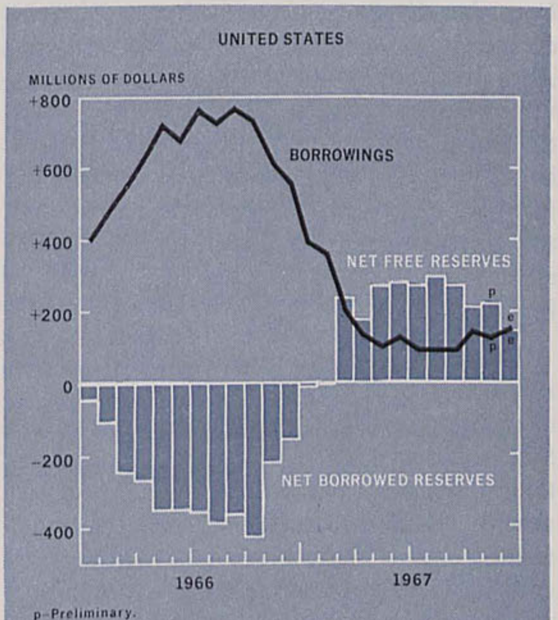
financial developments

Major developments in the financial sector of the U.S. economy during 1967 included a stimulative monetary policy; rapid expansion in commercial bank credit and in the money supply; extremely heavy demands for funds on the part of corporations, state and local governments, and the U.S. Treasury; marked increases in interest rates; and adjustments developing out of the devaluation of the British pound in November. The U.S. balance of payments continued to be a major problem, despite an increase in the surplus of merchandise exports.

Financial markets, both domestic and international, were heavily influenced by a number of important uncertainties during the year. Among these uncertainties were the possibility that the slowdown in business activity in early 1967 would become a recession; doubts that the strong upsurge predicted for the second half of the year would materialize; developments on the President's surtax proposal; continuing speculation over the size of the Federal deficit and the implication of this deficit for financial markets; predictions of a repetition of the 1966 "credit crunch"; and almost continuous uncertainty with respect to the stability of the British pound. Financial markets were repeatedly buffeted as one or more of these uncertainties dominated the headlines.

The Federal Reserve System used each of its three major tools of general MONETARY POLICY to prevent the slowing of business activity in late 1966 and early 1967 from becoming a downturn. Open market operations were conducted so as to provide a relatively generous measure of reserves to the banking system. As a result, both total and unborrowed reserves rose at rapid rates, and net free reserves of member banks (that is, excess reserves minus borrowings from the Reserve banks) became positive in the early part of the year and continued positive for the remainder of 1967. Net purchases of U.S. Government securities in the open market were made during

RESERVE POSITION OF MEMBER BANKS



p–Preliminary.
e–Estimated.
SOURCES: Board of Governors, Federal Reserve System.
Federal Reserve Bank of Dallas.

each quarter of the year and, for the year as a whole, substantially exceeded the amount of net purchases in 1966.

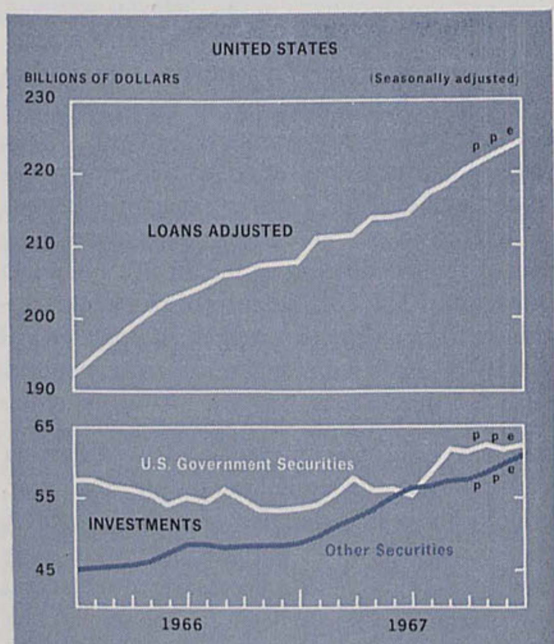
In late February, the Board of Governors announced a reduction from 4 percent to 3 percent in the reserve requirement on savings deposits and other time deposits up to $5 million in each bank. This reduction took place in two steps, with the requirement moving from 4 percent to 3½ percent on March 2 and from 3½ percent to 3 percent on March 16. It is estimated that these changes freed $500 million and $350 million in reserves at country banks and reserve city banks, respectively. With the decrease to 3 percent, the present requirement is at its legal minimum for these two categories of deposits.

In early April, the Board of Governors announced approval of the action of the Reserve banks in lowering their discount rates to 4 percent from the previous level of 4½ percent. This reduction brought the discount rate back to the level where it was before the increase in December 1965, a move which was taken to dampen inflationary forces in the economy. The April reduction in the discount rate was reversed, however, in late November 1967, when the Board approved the action of the Reserve banks in raising their rates to 4½ percent. The increase in late November was in response to the devaluation of the British pound and the sharp advance of the Bank of England rate to 8 percent.

The reserve position of all member banks in the Nation reflected the substantial measures of monetary ease taken by the Federal Reserve System during 1967. As a result of System actions to provide reserves and because of the weakened loan demand, the reserve position of member banks shifted from one of relatively deep net borrowed reserves in 1966 to one of substantial net free reserves in 1967. For example, net borrowed reserves averaged $165 million in December 1966 but improved rapidly to a position of net free reserves of $236 million in March 1967 and were at or near this level during the remainder of the year. Reflecting these same factors, borrowings from the Federal Reserve banks declined from a daily average of $557 million in December 1966 to $87 million in July and remained at low levels throughout the rest of 1967.

At commercial banks in the Nation, the pace of credit expansion during 1967 was considerably faster than in the previous year. Total BANK CREDIT (loans adjusted and investments) advanced an estimated $37 billion, or more than double the $15.7 billion increase in 1966. The major reason for this differential rate of growth was the fact that, in 1967, banks were provided with sufficient reserves to expand both loans and investments, whereas in 1966 (with considerable pressure on reserve

COMMERCIAL BANK LOANS AND INVESTMENTS



p–Preliminary.
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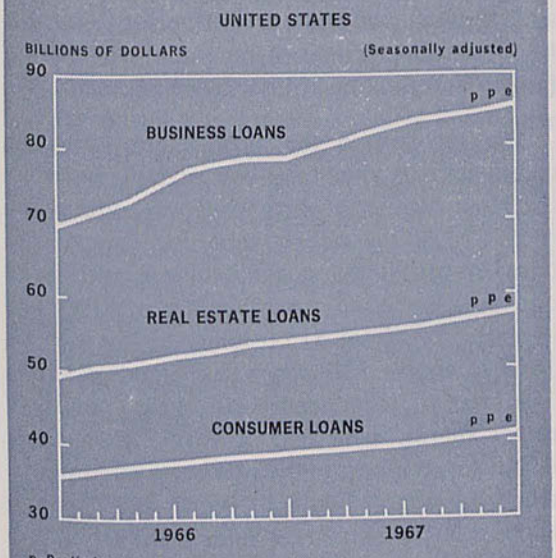
SOURCES: Board of Governors, Federal Reserve System.
Federal Reserve Bank of Dallas.

SELECTED COMMERCIAL BANK LOANS



p–Preliminary.
e–Estimated.
SOURCES: Board of Governors, Federal Reserve System.
Federal Reserve Bank of Dallas.

positions) banks were able to increase loans partially at the expense of further investments.

Loans adjusted expanded about 8 percent, which is slightly below the rate of increase in 1966. There were significant differences, however, in the composition of loan growth in the 2 years, with the smaller increase in business loans in 1967 being offset by the somewhat more rapid growth in other loan categories.

Commercial and industrial loans advanced an estimated $7 billion, or 9 percent, last year. In 1966, these loans advanced $9.2 billion, or 13.3 percent. The weakness in business loan demand in 1967 was particularly pronounced at the larger banks in the Nation. The major reasons for the relative weakness in business loan demand were associated with the leveling off of business capital expenditures, the sharp reduction in the rate of inventory accumulation, the desire by many corporations to refinance part of their bank debt into long-term bonds, and the increased use of commercial paper as a substitute for bank loans.

Most other loan categories showed moderate increases, with the growth of security loans being particularly noticeable. Real estate loans and consumer loans grew an estimated 7 percent and 6 percent, respectively. These increases were somewhat below the comparable rates of gain in 1966. Each of the other major loan categories reflected a somewhat faster rate of growth than in 1966.

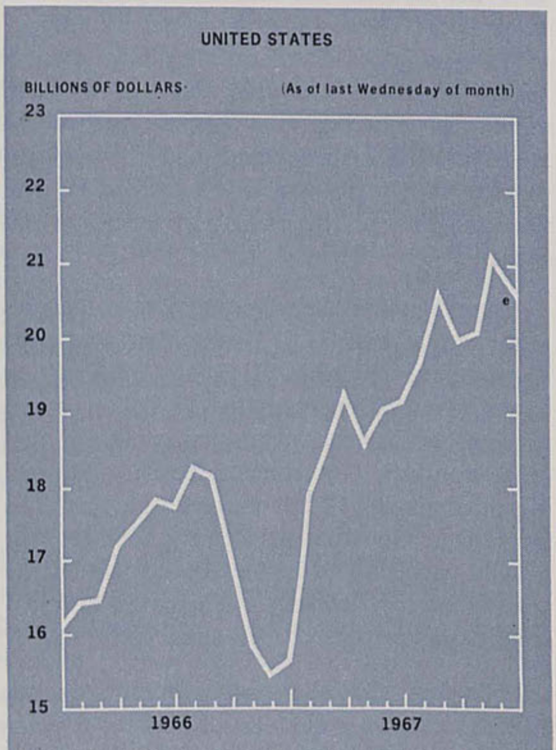
The major difference between 1967 and 1966 with respect to the expansion of bank credit resulted from the extremely rapid rate of accumulation of investments by U.S. commercial banks in the past year. Total investments expanded an estimated $21 billion, or 20 percent, in 1967. In 1966 the investment portfolios of these banks showed almost no net change, increasing only $300 million. The large gain in security holdings last year occurred within a climate of relatively easy reserve availability, weak business loan demand, and a greatly expanded supply of new issues by the Federal Government and by state and local governments.

Commercial banks added heavily to their investments in both U.S. Government and non-Government securities. Holdings of Treasury issues advanced an estimated $8 billion, or 16 percent, while investments in municipal and other non-U.S. Government securities showed a gain of about $12 billion, or 25 percent. The increase in Government security holdings was heavily concentrated in the second half of the year, when the Treasury was engaged in large-scale cash borrowing operations.

Following the sharp deterioration during 1966, commercial BANK LIQUIDITY positions improved significantly in 1967. Nevertheless, bank liquidity remained relatively low by historical standards. With loans expanding only moderately and deposits growing rapidly, the conventional measure of bank liquidity — that is, the loan-deposit ratio — showed considerable improvement. After reaching a high of 66.6 percent in September 1966, the loan-deposit ratio for all commercial banks in the Nation fell to 64.0 percent in October 1967 and to an estimated 63.5 percent in December.

The expansion of TIME AND SAVINGS DEPOSITS at commercial banks in the Nation was unusually strong during most of 1967, especially growth in consumer- and business-type certificates of deposit. Total time and savings deposits rose an estimated \$25 billion (or 16 percent), which is more than double the \$11.7 billion increase in 1966. The relative

LARGE CERTIFICATES OF DEPOSIT* AT WEEKLY REPORTING COMMERCIAL BANKS



*Negotiable certificates of deposit issued in denominations of \$100,000 or more.
e–Estimated.
SOURCES: Board of Governors, Federal Reserve System.
Federal Reserve Bank of Dallas.

attractiveness of offering rates in comparison with those of competing market instruments and the continued high ratio of personal savings to disposable income were among the major factors contributing to this large advance.

The increase in the most interest-sensitive component of total time and savings deposits, the large certificate of deposit, was substantial in 1967. At the weekly reporting commercial banks in the Nation, negotiable time certificates of deposit issued in denominations of \$100,000 or more rose from \$15.6 billion at the end of 1966 to almost \$21 billion at the end of 1967. The growth experience last year contrasts rather sharply with that of 1966, when bank issues of these money market instruments reached peaks in July and August and then declined sharply as market rates on other short-term investments reached levels which were at or above the regulatory ceiling rate on large CD's. During most of 1967, other money market rates remained below the ceiling rate for the large CD's.

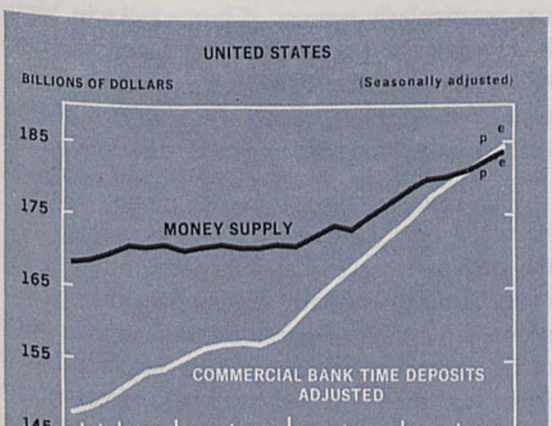
After showing virtually no growth from the spring of 1966 until the end of that year, the MONEY SUPPLY (conventionally defined as demand deposits adjusted and currency in the hands of the public) expanded rapidly in 1967, responding to the ease of monetary policy and the rapid increase in bank credit. For the year as a whole, the money supply rose an estimated \$12 billion, or 7.2 percent. In 1966 the money supply rose only \$3.6 billion, or 2.2 percent, reflecting the monetary restraint of the period. The more rapid rate of growth of the money supply in 1967 was entirely the result of a surge in demand deposits; currency in the hands of the public grew at about the same rate as in 1966. The demand deposit component of the money supply expanded approximately \$10 billion, as compared with the \$1.6 billion rise in the previous year. The currency component grew around \$2 billion, which is roughly equal to the increase in 1966.

In line with the rise in the personal savings ratio, liquid assets held by the public increased rapidly in 1967. In the first 10 months of the year, liquid asset holdings advanced $36.4 billion, as compared with the $23.2 billion increase during the same months of 1966. The growth of savings-type deposits at nonbank financial institutions was particularly noticeable. For example, the public added $9.6 billion to its holdings of savings and loan shares in the first 10 months; in 1966 the comparable increase was only $2.4 billion. Similarly, deposits at mutual savings banks expanded sharply and rose $4.3 billion in January-October 1967, as compared with $2.0 billion a year earlier.

In contrast, the public's holdings of U.S. Government securities maturing within 1 year fell $5.7 billion in the first 10 months; in the 1966 period, these holdings rose $7.4 billion. The public's disinvestment in the short-term Government securities in 1967 reflected the less attractive yields on these instruments relative to interest rates at financial institutions.

New long-term corporate borrowing reached extraordinarily high levels in 1967. These heavy demands upon capital markets reflected a number of factors: the large differential between corporate capital expenditures and internally generated funds, the exceptionally low levels of corporate liquidity, the heavy drain on corporate funds in the first half of 1967 due to accelerated Federal income tax payments, and anticipatory borrowing in the face of a possible repetition of the 1966 "credit crunch." In meeting their requirements for funds, corporate borrowers relied heavily upon public offerings of securities (as opposed to private placements) and placed increasing emphasis upon debt issues which are convertible into common stock.

MONEY SUPPLY AND TIME DEPOSITS



p-Preliminary.
e-Estimated.
SOURCES: Board of Governors, Federal Reserve System.
Federal Reserve Bank of Dallas.

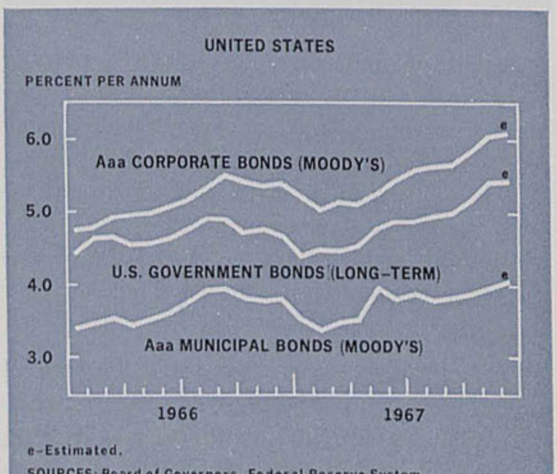
New corporate SECURITY OFFERINGS last year were an estimated $25 billion, up about $7 billion from the record 1966 volume. Virtually all of the increase in corporate security offerings represented debt financing, as stock issues reaching the market remained at about their 1966 level. Total public bond offerings were an estimated $15 billion, which is almost double the high level of such offerings in 1966.

State and local governments increased their borrowings again in 1967, with the issues totaling an estimated $14.5 billion, or roughly 28 percent greater than the 1966 volume. It may be noted that many of these borrowing units placed heavy reliance upon industrial revenue bond issues, a type of state and local government financing which has expanded rapidly in recent years. Commercial banks were especially heavy purchasers of state and local government issues, as reserve availability and relatively weak loan demand permitted the allocation of a substantial volume of funds to these securities.

Demands made upon the money and capital markets by the U.S. Treasury were also unusually heavy in 1967, with cash borrowing for the 12 months totaling $21.5 billion. In the second half of the year, the Treasury raised an estimated \$16.4 billion in new cash, which is more than 50 percent larger than the amount borrowed in the latter half of 1966. In order to provide these new funds, the Treasury issued \$8.5 billion of Tax Anticipation bills, added \$2.9 billion to the regular bill auctions, sold \$2.5 billion of notes in August, raised \$2.2 billion in connection with a note refunding in November, and allowed a \$300 million oversubscription to a note offered in the refunding of \$9.6 billion of notes and certificates in August. In the sale of notes in November, the Treasury used its authority, for the first time, to issue notes with maturities of up to 7 years. With the sale of the relatively short-term issues, the average maturity of the Federal debt continued to shorten, falling from 4 years 7 months in December 1966 to 4 years 2 months in October 1967.

Both money and capital MARKET RATES, on balance, increased last year; however, the timing of the movements in these rates and the extent of the increases varied significantly. Money market rates generally declined from late 1966 through June 1967, with the reductions being quite large. Money market rates then advanced throughout the rest of the year

LONG-TERM RATES



e–Estimated.
SOURCES: Board of Governors, Federal Reserve System.
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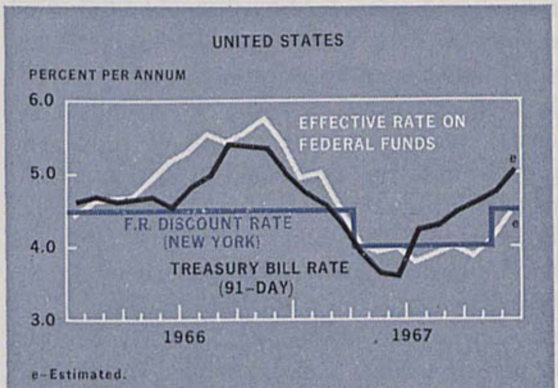
SHORT-TERM RATES



e–Estimated.
SOURCES: Board of Governors, Federal Reserve System.
Federal Reserve Bank of Dallas.

and, at the end of 1967, were approaching their peak 1966 levels. Capital market rates decreased only in the first few months of 1967 and only to a moderate extent. These rates then expanded significantly throughout the remainder of the year and, by the year-end, were considerably above their 1966 highs.

Large day-to-day and week-to-week fluctuations in both money and capital market rates were characteristic of 1967. The markets were heavily influenced by a number of uncertainties, particularly rumors of peace talks in Viet-Nam, the waxing and waning of the possibilities of enaction of the President's surcharge proposal, and rumors about the stability of the British pound and its eventual devaluation.

The restrained behavior of money market rates reflected a number of factors, principally the ease in reserve availability, the attempt by many firms to bolster liquidity by using the proceeds of their heavy bond financing to purchase short-term assets and to pay off bank loans, and the consequent relatively weak business loan demand at commercial banks. In contrast, the substantial increases in capital market rates resulted from the truly enormous supply of new issues by corporations, state and local governments, and the U.S. Treasury — a demand which was sufficiently strong to push capital market rates up despite a relatively large supply of funds.

Money market rates declined from the late-1966 peaks until June 1967, with reductions of 100 to 200 basis points being common for Federal funds, 3-month Treasury bills, commercial paper, and bankers' acceptances. For example, the market rate on 3-month Treasury bills decreased from a monthly average of 5.36 percent in September 1966 to 3.53 percent in June 1967. Similarly, the rate on 4- to 6-month prime commercial paper fell from 6.00 percent in the fall of 1966 to 4.65 percent in June 1967. Thereafter, however, money market rates rose significantly and, by the year-end, were approaching their 1966 highs. The 3-month Treasury bill rate was quoted at 5.02 percent in mid-December 1967, and the rate on 4- to 6-month prime commercial paper was up to 5½ percent.

The prime rate (the rate charged by commercial banks to customers with the highest credit standing) was changed twice in 1967. In late January, the rate was reduced from 6 percent to 5½ percent by some commercial banks; other banks, however, lowered their prime rate only to 5¾ percent. As a result, a split prime rate existed until late March, when — with further declines in money market rates — the 5½-percent rate became general. The second change in the prime rate occurred in late November, when commercial banks, in response to increases in other rates, advanced the prime rate uniformly to 6 percent again.

Yields in the capital market declined only through the first few months of 1967, with most decreases being relatively modest. For example, the yield on long-term Government bonds fell from 4.80 percent in August 1966 to 4.47 percent in February 1967. In the same period, the rate on Aaa corporate issues (Moody's average) declined from 5.31 percent to 5.03 percent. Interest rates in the capital market then advanced appreciably and, by the end of 1967, were considerably above the peak 1966 rates. In mid-December, the average rate on long-term Governments was 5.37 percent, and that for Moody's Aaa corporate issues was 6.16 percent. Moreover, some new Aaa corporate offerings were marketed at yields of more than 6½ percent toward the year-end.

balance of payments

The major development in the international financial area during 1967 was the devaluation of the British pound sterling in November, whereby the par value in terms of the dollar was reduced from $2.80 to $2.40, or 14.3 percent. Devaluation of the pound followed British efforts over a 3-year period to effect needed adjustments in the balance-of-payments position, efforts which included a series of austerity measures at home and arrangements for financial assistance from major industrial nations abroad, as well as the International Monetary Fund. Despite these efforts, the British balance of payments continued in deficit, a deficit heavily aggravated by the results of the Arab-Israeli war.

The decision to devalue the pound was announced against a background of continuing weakness of the British currency vis-a-vis other major currencies, large losses of monetary reserves, the need for further massive foreign financial assistance to sustain the existing par value of the pound, and recognition that difficult and basic economic measures were required. Throughout the year, month-to-month developments in the British trade position had caused major uncertainties in the international financial community.

With the decision to devalue the pound, the British Government also announced a number of other measures designed to facilitate adjustment of the payments position and to sustain the new par value. These measures included advancing the Bank of England rate to 8 percent, applying for $1.4 billion of credit from the IMF and $1.6 billion from other major financial sources, increasing minimum downpayment terms on automobile purchases from 25 percent to 33 percent and reducing the maximum repayment period from 36 months to 27 months, raising the corporate income tax from 40 percent to 42.5 percent, and lowering Government expenditures, particularly defense expenditures.

In the week following the devaluation of the British pound, substantial uncertainties arose in international financial markets concerning the viability of the new parity of the pound and, in fact, of the international financial structure. With the increasing speculation over the gold value of the dollar, there developed an important surge of demand for gold in London and other markets of the world. Despite the greatly swollen demand for gold which culminated on November 24, cooperation among the United States, the United Kingdom, and other members of the gold pool in supplying gold through the London market insured that the surge of buying did not drive the price above its pegged level. Speculation subsided in the face of this determined and successful cooperative effort, though recurring waves of buying were still evident in December.

With these strains on international financial markets, attention continued to be focused on the balance-of-payments position of the United States. Despite an increase in the surplus on merchandise trade, the U.S. balance of payments worsened in 1967. As in previous years, the size and persistence of the deficit were of considerable concern to the monetary authorities and a factor influencing the Nation's economic policy decisions. For the first three quarters of the year, the balance-of-payments deficit (measured on the liquidity basis) was at a seasonally adjusted annual rate of $2.4 billion, almost double the deficit in each of the preceding 2 years. While data are not available for the full year, it is not unreasonable to expect a liquidity deficit of over $2.5 billion for 1967.

The major bright spot in the U.S. balance of payments in 1967 was the increase in the surplus on merchandise trade. Preliminary figures for the first three quarters indicate a surplus on merchandise trade of $4.4 billion at a seasonally adjusted annual rate. This is $473 million greater than the surplus during the corresponding period in 1966. The increase in the merchandise trade surplus was the result of a gain of about 6 percent in exports and virtually no change in imports. It is estimated, however, that the trade surplus declined somewhat in the last quarter. Despite its improvement in 1967, the trade surplus still was substantially below the $6.7 billion surplus in 1964.

While the surplus on merchandise trade improved, changes in other items more than offset the gain; consequently, there was an increase in the balance-of-payments deficit, as measured on the liquidity basis. Of particular importance were increases in U.S. Government grants and loans, the sale of foreign securities in the U.S. market, the advance in bank holdings of foreign assets, and rising tourist expenditures. There is little doubt that financial flows were influenced substantially by the Viet-Nam war, the Arab-Israeli war, and spending by American tourists at EXPO 67.

Reflecting not only the continuation of the imbalance in the Nation's payments accounts but also the events following the British devaluation, the U.S. gold stock declined further in 1967. Through October, the decrease in the gold stock had been quite small — $254 million — and considerably less than in 1966. With the sharp increase in the demand for gold on the London gold market immediately after the devaluation of the pound and the provision of gold through the gold pool, the U.S. gold position declined considerably — $475 million — in the week ended December 6. As of that date, the gold stock stood at $12.4 billion, which is $730 million below the level at the end of 1966.

In recent years, commercial banks and nonbank financial institutions have cooperated with the Federal Reserve System in a voluntary program to curtail the outflow of U.S. private capital and, thus, improve the balance of payments. Nonfinancial firms have cooperated with the U.S. Department of Commerce. On November 16, the Board of Governors and the Commerce Department issued revised guidelines for 1968.

Under the 1968 program, commercial banks are again asked to hold their foreign assets within 109 percent of the year-end amount in 1964, the same target ceiling which applied in 1966 and 1967. In addition, the Board has requested that commercial banks limit their foreign lending each quarter to no more than 20 percent of their "leeway" under the ceiling. The Board allows additional flexibility for banks that had small amounts of foreign assets at the end of 1964. Finally, nonbank financial institutions are allowed a ceiling of 109 percent of their September 30, 1966, holdings, as compared with 105 percent in 1967.

Nonfinancial firms are asked to curtail their dollar outflows into direct investments in their foreign subsidiaries. These outflows should be limited to 100 percent of the average annual flows in the 1962-64 base period, representing a reduction from the 1966 and 1967 ceilings.

Highlighting the effective cooperation between the central banks and treasuries of the major industrial countries were increases in the amount of funds and the number of countries participating in currency swap arrangements. In May the Federal Reserve System announced that reciprocal currency swap arrangements had been concluded on a standby basis with central banks in Denmark, Mexico, and Norway in the amount of $100 million, $130 million, and $100 million, respectively. In July the Federal Reserve announced that the reciprocal currency swap arrangements with the Swiss National Bank and the Bank for International Settlements had been increased $50 million and $150 million, respectively.

Finally, following the British devaluation, the Federal Reserve announced a massive increase in the swap arrangements on November 30. The increase of $1.7 billion brought the total to $6.8 billion and included increases of $350 million to West Germany, $300 million to the BIS, $300 million to Japan, $250 million to Canada, $150 million to England, $150 million to Italy, $100 million to Sweden, $75 million to Belgium, and $75 million to the Netherlands. To supplement the November 30 increase, the Federal Reserve announced, in December, advances of $150 million each to the BIS and the central bank of Switzerland. In mid-December, total swap arrangements aggregated $7.1 billion.

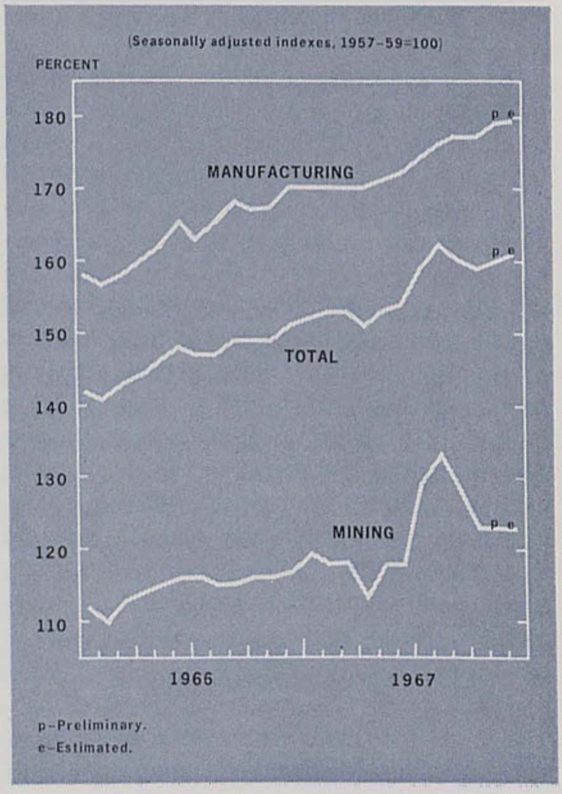
As further evidence of the cooperation between the major central banks and treasuries, the International Monetary Fund, at its annual meeting in Rio de Janeiro in the fall, approved a proposal for the eventual creation of a new monetary reserve asset entitled "special drawing rights." These special drawing rights upon the IMF could be used, along with gold and foreign currencies, as reserves to cover balance-of-payments deficits. Unlike present drawings upon the IMF, which are temporary, these SDR's are expected to become a permanent addition to the reserves of the world's trading nations. Although the proposal will not be implemented for at least a few years, it is hoped that the creation of the rights will partially alleviate an expected international liquidity problem.

regional situation

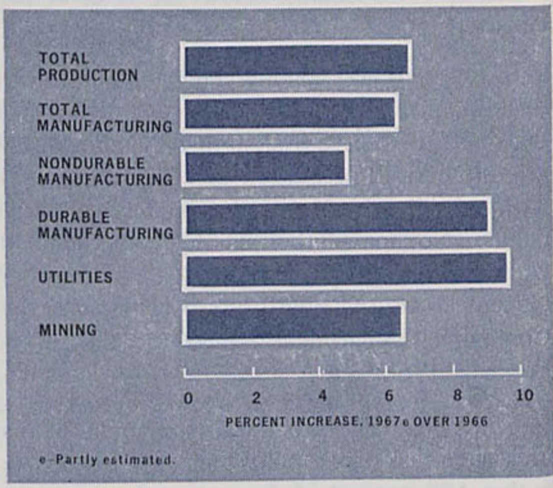
In 1967 the southwestern states of Arizona, Louisiana, New Mexico, Oklahoma, and Texas achieved new highs in industrial production, employment, construction, income, and sales. The gains last year, however, were more moderate than those in 1966; and paralleling trends in the Nation, economic activity in the Southwest was noticeably more robust during the last half of 1967 than during the earlier months of the year. Especially important influences contributing to the strength of the southwestern economy last year were the vigorous growth in ordnance and other defense-related activities, the demands placed upon the petroleum industry as a result of the war in the Middle East, and the improvement in construction. Work stoppages, particularly in copper mining and automobile manufacturing, were dampening influences.

During the first 6 months of 1967, total INDUSTRIAL PRODUCTION in the South-

INDUSTRIAL PRODUCTION IN TEXAS



CHANGES IN INDUSTRIAL PRODUCTION IN TEXAS



west was little changed from the high level attained at the end of 1966; but after midyear, the output of goods and services resumed its uptrend. For all of 1967, physical output, as measured by the Texas industrial production index, averaged nearly 7 percent above the 1966 level. Last year's substantial increase, however, did not match the more ebullient pace of 1966.

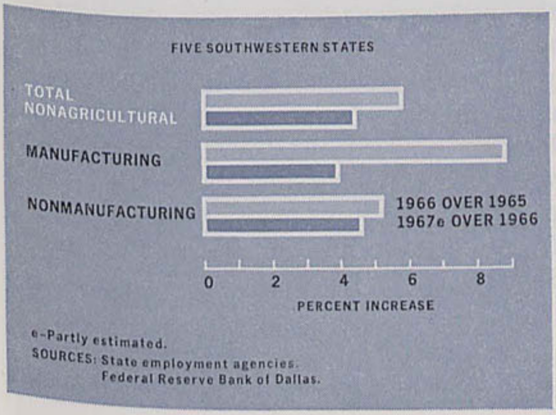
While output changes for subgroups within the major components were rather widely diffused, the advances for total manufacturing and mining were close to the average gain in the total index. The output of utilities rose almost 10 percent. Only 3 of the 24 subgroups comprising the Texas production index — namely, transportation equipment (mainly aircraft and related parts), "other" durables (predominantly ordnance), and electrical machinery — posted outstanding gains as compared with the combined rise for all industries.

After remaining on a plateau during the first half of 1967, the production of durable manufactures subsequently expanded, particularly under the impetus of an accelerating increase in the output of aircraft and parts. The gain of about 9 percent for durable manufactures was a major force lifting total manufacturing output a little more than 6 percent above its 1966 level.

The production of nondurable manufactures rose slightly more than 4 percent but failed to match the 1966 performance. In the nondurable sector, only the chemical industry showed any exceptional buoyancy. After declining slightly from the level reached in the latter part of 1966, petroleum refining began to strengthen in the spring and, then, rose more briskly during the summer and early-fall months, partly in response to the increased demand arising from the disturbances in oil trade due to the Middle East war. During the latter part of 1967, refining activity slackened; but for the year, output was slightly more than 4 percent above the year-earlier level.

Following a pattern somewhat similar to refining, crude petroleum mining showed little strength during the first half of 1967, but the Middle East conflict gave an upward thrust to southwestern oil production in the middle of the year. With the resumption of Middle East production and more normal worldwide oil flows, Texas crude oil production was sharply curtailed by October. Nevertheless, crude petroleum mining last year averaged nearly 7 percent above 1966 and, at the end of 1967, was running about 6 percent above a year ago.

WAGE AND SALARY EMPLOYMENT



EMPLOYMENT in the five southwestern states showed a substantial increase of 4.3 percent in 1967; however, this advance in total nonagricultural employment did not match the exceptional rise that occurred in 1966. The pace of gains was slower than in 1966 for both manufacturing and nonmanufacturing employment but was considerably more so for manufacturing. The reduced rate of employment growth in manufacturing last year mirrored the somewhat less forceful performance of manufacturing activity, especially the production of nondurable goods.

Except in mining (where work stoppages in the copper industry disrupted employment), gains were evident in the Southwest in all the nonmanufacturing employment categories. The increase in the number of construction workers was slight, however; this development reflected the modest recovery in construction activity from the markedly depressed levels in the latter part of 1966 and early 1967. The major stimuli to nonagricultural employment growth were the service industry and government, both of which experienced gains slightly in excess of 6 percent.

With the growth of the civilian labor force in the five southwestern states being about proportionate to the overall employment growth, the unemployment rate last year, at 3.6 percent, was scarcely changed from 1966. Associated with this historically low rate were the severe shortages of skilled, experienced, and professionally trained workers which prevailed in several of the major southwestern labor markets.

The slower pace of manufacturing activity was reflected in a slight decline in the average length of the workweek. Nevertheless, higher hourly earnings more than compensated for the decline in hours worked, so that average weekly earnings in manufacturing rose a little more than 3 percent. The slightly easier tone of the labor market in manufacturing last year, as compared with 1966, is also indicated by the decreases in new-hire rates and quit rates.

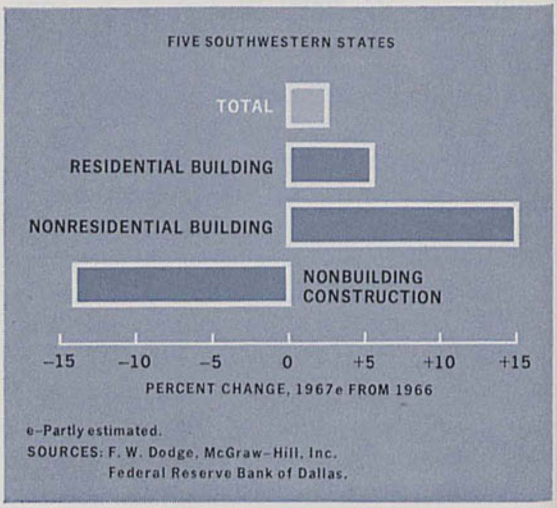
CONSTRUCTION activity in the five southwestern states moved to another new high in 1967, with the value of construction contracts reaching an estimated total of nearly $5.4 billion. The 1967 advance of around 3 percent was greater than the gain achieved in 1966. With a 6-percent increase (in contrast to a 12-percent decline in the preceding year), the value of residential construction contracts in 1967 nearly regained its 1965 level, after dipping sharply during the latter part of 1966. Nonresidential construction, showing exceptional strength, highlighted construction activity in 1967 by posting a gain of about 15 percent over the prior year. In contrast to its exceptional strength in 1966, nonbuilding construction was the only category exhibiting weakness in the past year and receded over 14 percent from 1966.

The increase in residential construction contracts was primarily centered in multiple-family housing, with apartment dwellings assuming the greatest importance in dollar and percentage gains. Contracts for one-family units were also up strongly. The buoyancy in residential construction during 1967 reflected the increased availability of mortgage credit, together with the reduction in the overhang of unsold homes and vacant rental units.

The increased activity in nonresidential construction was directed, in large part, to the administrative and health needs of the public. Sizable gains in the value of contracts for public buildings and hospitals were recorded. There was also a substantial increase in contracts for manufacturing plants, while moderate increases occurred in the construction of office and bank buildings.

Although the value of nonbuilding construction contracts last year was well below that in 1966, important increases were recorded in

VALUE OF CONSTRUCTION CONTRACTS



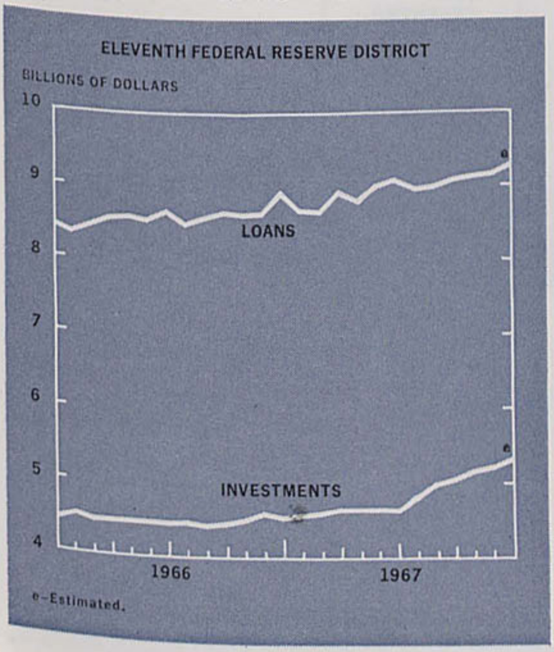
spending for streets and highways. This spending reflected, in part, further additions to the Interstate Highway System, along with improvements by cities, to meet the rapidly growing transportation needs of an increasing and mobile population. Moreover, requirements for additional water supplies for personal and industrial consumption, as well as those for recreational purposes, were manifested in the increased volume of spending for dams and reservoirs.

In the agricultural sector, a slight rise in the output of livestock and livestock products was about offset by a smaller outturn of crops, and total AGRICULTURAL PRODUCTION in the Southwest in 1967 was little changed from the high level reached in 1966. Lower average yields were responsible for the major portion of the decline in crop volume. Prices received for farm products and Government payments were both lower last year than in 1966, and production costs were higher; consequently, net farm income was moderately below the record 1966 total.

With the expansion of employment and the increases in weekly earnings in manufacturing and nonmanufacturing occupations, personal income rose during 1967, although the advance was below the 9.4-percent gain in 1966. Southwestern RETAIL SALES in the past year did not rise as rapidly as personal income. Retail sales posted a gain of only about 4 percent during 1967, off appreciably from the increase of more than 6 percent recorded for the prior year. Based upon estimates made by the Bureau of Business Research of The University of Texas, nondurable goods stores in Texas experienced a greater rise in retail sales than did durable goods stores. The greatest sales strength was centered in apparel stores and gasoline service stations. New automobile registrations in four major markets in Texas — Dallas, Fort Worth, Houston, and San Antonio — lacked vigor in 1967 and barely managed to exceed their total in 1966.

BANKING DEVELOPMENTS in 1967 in the Southwest featured a sharp expansion in bank credit, modest growth in loans, rapid increases in total investments, moderate growth in demand deposits, and extremely rapid increases in time deposits. With loans expanding much less rapidly than deposits, the loan-deposit ratio at all member banks in the Eleventh District declined from its peak 1966 level. Net purchases of Federal funds also retreated, as commercial banks in the District had relatively ample reserve positions throughout the year.

MEMBER BANK LOANS AND INVESTMENTS



Commercial bank credit (loans and investments) rose an estimated 8.3 percent at all member banks in the District, which is almost double the 4.7-percent increase in 1966. As was true of all banks in the Nation, the major cause of this more rapid rate of increase in bank credit in 1967 was the heavy accumulation of investments last year. Loans expanded about 4 percent in 1967, as compared with 5.8 percent in 1966. Total investments, however, grew approximately 17 percent in 1967 but only 2.7 percent in the previous year.

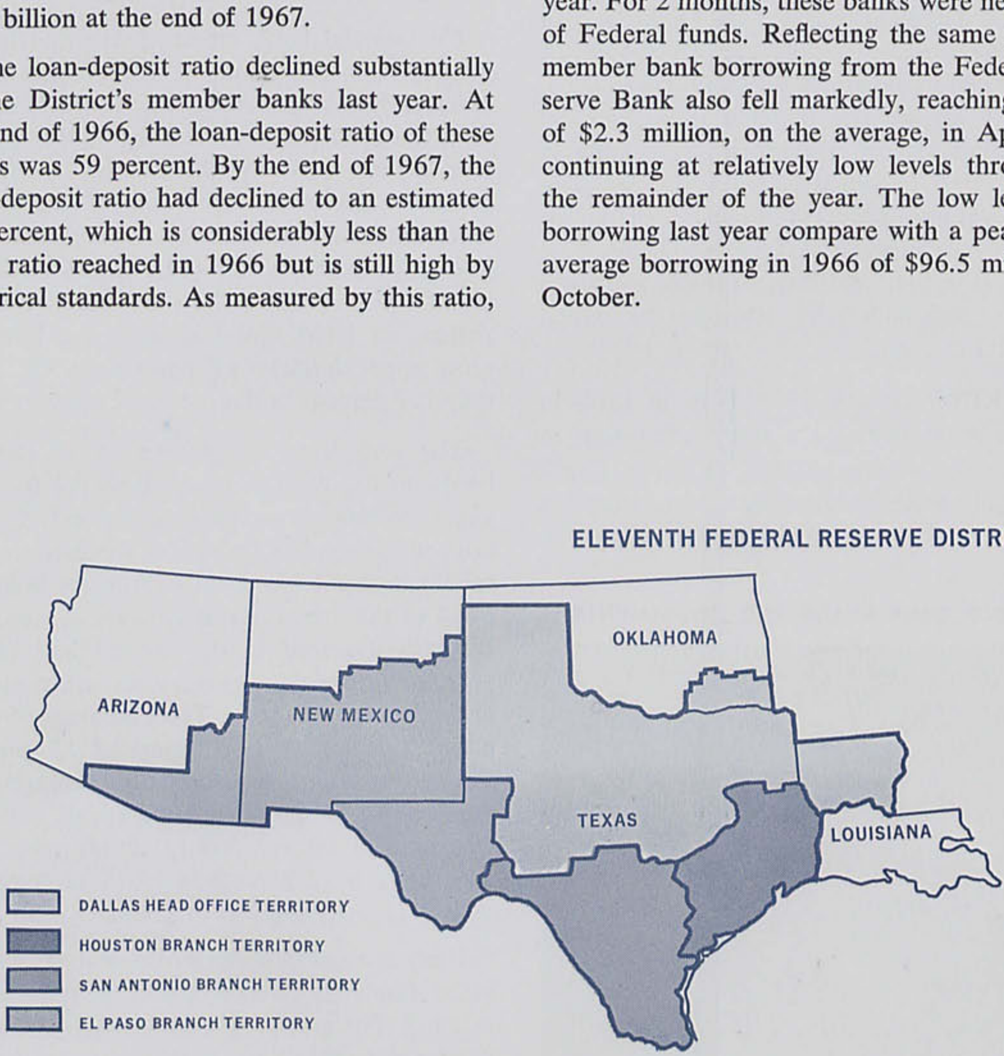
The growth in investments at all member banks in the District was substantial for both U.S. Government securities and non-U.S. Government issues, but the rate of increase was exceedingly rapid for non-Government holdings. Most of the expansion in Government security holdings occurred in the second half of the year, reflecting the Treasury financing activity in the last two quarters. Total holdings of Government issues rose an estimated 13 percent, in contrast to a 6.6-percent decline during the credit restraint of 1966. Holdings of non-U.S. Government issues, mostly municipals, grew an estimated 22 percent in 1967, as compared with a 14.3-percent rise in 1966.

Both demand deposits and time deposits provided funds to member banks in the District in 1967. The growth of time deposits, however, was considerably more rapid than that for demand deposits. Total demand deposits rose an estimated 6 percent last year, which is substantially greater than the 0.7-percent gain in 1966. Total time and savings deposits advanced an estimated 12 percent, as compared with the 7.3-percent increase in 1966. Most of the advance in time deposits resulted from the growth in certificates of deposit, both the business type and the consumer type. For example, negotiable time certificates of deposit issued in denominations of $100,000 or more at the District's weekly reporting commercial banks increased from $1.0 billion at the end of 1966 to around $1.2 billion at the end of 1967.

The loan-deposit ratio declined substantially at the District's member banks last year. At the end of 1966, the loan-deposit ratio of these banks was 59 percent. By the end of 1967, the loan-deposit ratio had declined to an estimated 56 percent, which is considerably less than the peak ratio reached in 1966 but is still high by historical standards. As measured by this ratio, there is no doubt that the liquidity of commercial banks in the District improved markedly during 1967.

Net purchases of Federal funds by District banks declined sharply in 1967, principally reflecting the ample supply of reserves during the year. For 2 months, these banks were net sellers of Federal funds. Reflecting the same factors, member bank borrowing from the Federal Reserve Bank also fell markedly, reaching a low of $2.3 million, on the average, in April and continuing at relatively low levels throughout the remainder of the year. The low levels of borrowing last year compare with a peak daily average borrowing in 1966 of $96.5 million in October.

ELEVENTH FEDERAL RESERVE DISTRICT



STATISTICAL SUPPLEMENT

to the

BUSINESS REVIEW

January 1968

FEDERAL RESERVE BANK
OF DALLAS

CONDITION STATISTICS OF WEEKLY REPORTING COMMERCIAL BANKS

Eleventh Federal Reserve District

(In thousands of dollars)

Item	Dec. 27, 1967	Nov. 29, 1967	Dec. 28, 1966
ASSETS			
Net loans and discounts	5,449,427	5,217,932	5,238,671
Valuation reserves	*92,452*	*92,929*	*88,331*
Gross loans and discounts	5,541,879	5,310,861	5,327,002
Commercial and industrial loans	2,662,987	2,568,243	2,521,719
Agricultural loans, excluding CCC certificates of interest	97,172	96,945	85,602
Loans to brokers and dealers for purchasing or carrying:			
U.S. Government securities	502	12	14,002
Other securities	70,421	64,743	35,046
Other loans for purchasing or carrying:			
U.S. Government securities	1,252	1,259	733
Other securities	327,310	331,792	330,698
Loans to nonbank financial institutions:			
Sales finance, personal finance, factors, and other business credit companies	180,405	168,121	174,033
Other	287,674	279,977	262,326
Real estate loans	512,011	497,244	467,292
Loans to domestic commercial banks	232,308	149,422	307,507
Loans to foreign banks	5,151	5,892	4,506
Consumer instalment loans	544,325	542,047	513,568
Loans to foreign governments, official institutions, central banks, international institutions	0	0	0
Other loans	620,361	605,164	609,970
Total investments	2,510,572	2,557,600	2,224,172
Total U.S. Government securities	1,183,165	1,208,450	1,089,864
Treasury bills	93,077	121,555	48,596
Treasury certificates of indebtedness	0	0	15,659
Treasury notes and U.S. Government bonds maturing:			
Within 1 year	193,861	176,882	164,848
1 year to 5 years	677,828	685,465	599,844
After 5 years	218,399	224,548	260,917
Obligations of states and political subdivisions:			
Tax warrants and short-term notes and bills	19,278	29,416	12,315
All other	1,098,444	1,094,813	963,864
Other bonds, corporate stocks, and securities:			
Participation certificates in Federal agency loans	135,595	149,549	90,188
All other (including corporate stocks)	74,090	75,372	67,941
Cash items in process of collection	1,072,303	812,718	778,395
Reserves with Federal Reserve Bank	717,905	716,593	543,791
Currency and coin	90,256	83,691	87,857
Balances with banks in the United States	484,761	428,790	484,429
Balances with banks in foreign countries	4,014	8,249	4,752
Other assets	359,169	327,964	342,705
TOTAL ASSETS	10,688,407	10,153,537	9,704,772
LIABILITIES			
Total deposits	9,177,101	8,646,929	8,363,840
Total demand deposits	5,763,935	5,230,853	5,184,598
Individuals, partnerships, and corporations	3,960,295	3,616,093	3,549,767
States and political subdivisions	268,752	315,706	281,115
U.S. Government	163,855	107,220	98,146
Banks in the United States	1,249,887	1,092,007	1,155,733
Foreign:			
Governments, official institutions, central banks, international institutions	3,795	3,343	3,138
Commercial banks	26,993	23,423	22,881
Certified and officers' checks, etc.	90,358	73,061	73,818
Total time and savings deposits	3,413,166	3,416,076	3,179,242
Individuals, partnerships, and corporations:			
Savings deposits	1,132,448	1,121,220	1,187,044
Other time deposits	1,686,401	1,743,453	1,357,486
States and political subdivisions	558,733	516,386	609,523
U.S. Government (including postal savings)	11,698	11,724	8,790
Banks in the United States	20,246	19,653	14,059
Foreign:			
Governments, official institutions, central banks, international institutions	2,800	2,800	800
Commercial banks	840	840	1,540
Bills payable, rediscounts, and other liabilities for borrowed money	364,884	415,113	280,520
Other liabilities	246,145	192,233	206,799
CAPITAL ACCOUNTS	900,277	899,262	853,613
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	10,688,407	10,153,537	9,704,772

RESERVE POSITIONS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. In thousands of dollars)

Item	5 weeks ended Dec. 6, 1967	4 weeks ended Nov. 1, 1967	5 weeks ended Dec. 7, 1966
RESERVE CITY BANKS			
Total reserves held	679,846	684,581	629,947
With Federal Reserve Bank	631,339	637,600	583,727
Currency and coin	48,507	46,981	46,220
Required reserves	675,100	679,843	622,737
Excess reserves	4,746	4,738	7,210
Borrowings	331	857	75,180
Free reserves	4,415	3,881	—67,970
COUNTRY BANKS			
Total reserves held	666,219	662,699	643,123
With Federal Reserve Bank	506,758	501,425	492,542
Currency and coin	159,461	161,274	150,581
Required reserves	636,449	625,607	610,008
Excess reserves	29,770	37,092	33,115
Borrowings	998	1,238	8,469
Free reserves	28,772	35,854	24,646
ALL MEMBER BANKS			
Total reserves held	1,346,065	1,347,280	1,273,070
With Federal Reserve Bank	1,138,097	1,139,025	1,076,269
Currency and coin	207,968	208,255	196,801
Required reserves	1,311,549	1,305,450	1,232,745
Excess reserves	34,516	41,830	40,325
Borrowings	1,329	2,095	83,649
Free reserves	33,187	39,735	—43,324

CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(In thousands of dollars)

Item	Dec. 27, 1967	Nov. 29, 1967	Dec. 28, 1966
Total gold certificate reserves	431,151	393,114	448,582
Discounts for member banks	7,300	2,600	400
Other discounts and advances	0	0	0
U.S. Government securities	2,001,288	2,053,097	1,502,065
Total earning assets	2,008,588	2,055,697	1,502,465
Member bank reserve deposits	1,158,512	1,129,472	966,058
Federal Reserve notes in actual circulation	1,434,193	1,385,859	1,283,132

CONDITION STATISTICS OF ALL MEMBER BANKS

Eleventh Federal Reserve District

(In millions of dollars)

Item	Nov. 29, 1967	Oct. 25, 1967	Nov. 30, 1966
ASSETS			
Loans and discounts	9,188	9,115	8,639
U.S. Government obligations	2,578	2,519	2,330
Other securities	2,666	2,622	2,274
Reserves with Federal Reserve Bank	1,129	1,127	966
Cash in vault	244	234	228
Balances with banks in the United States	1,120	1,188	1,125
Balances with banks in foreign countries[e]	11	8	6
Cash items in process of collection	925	921	913
Other assets[e]	380	425	452
TOTAL ASSETS[e]	18,241	18,159	16,933
LIABILITIES AND CAPITAL ACCOUNTS			
Demand deposits of banks	1,379	1,398	1,363
Other demand deposits	8,084	8,073	7,635
Time deposits	6,548	6,437	5,829
Total deposits	16,011	15,908	14,827
Borrowings	429	482	356
Other liabilities[e]	261	236	283
Total capital accounts[e]	1,540	1,533	1,467
TOTAL LIABILITIES AND CAPITAL ACCOUNTS[e]	18,241	18,159	16,933

e — Estimated.

BANK DEBITS, END-OF-MONTH DEPOSITS, AND DEPOSIT TURNOVER

(Dollar amounts in thousands, seasonally adjusted)

Standard metropolitan statistical area	DEBITS TO DEMAND DEPOSIT ACCOUNTS[1]				DEMAND DEPOSITS[1]			
	November 1967 (Annual-rate basis)	Percent change: November 1967 from October 1967	Percent change: November 1967 from November 1966	Percent change: 11 months, 1967 from 1966	November 30, 1967	Annual rate of turnover: November 1967	Annual rate of turnover: October 1967	Annual rate of turnover: November 1966
ARIZONA: Tucson	$ 4,930,680	0	22	11	$ 166,725	29.4	29.8	24.6
LOUISIANA: Monroe	2,055,120	2	13	8	76,604	26.3	25.8	25.8
Shreveport	5,864,124	0	3	9	220,524	26.2	26.0	26.6
NEW MEXICO: Roswell[2]	699,156	3	3	1	34,052	20.5	19.9	19.6
TEXAS: Abilene	1,750,656	4	—6	—4	92,609	18.6	17.8	20.2
Amarillo	4,505,520	4	10	2	135,963	32.7	31.5	30.7
Austin	5,249,592	1	28	14	215,236	24.3	24.2	22.3
Beaumont-Port Arthur-Orange	5,635,092	—2	0	5	213,535	25.7	25.6	26.6
Brownsville-Harlingen-San Benito	1,807,896	25	16	3	74,739	24.5	21.0	25.7
Corpus Christi	4,393,332	0	19	6	195,069	22.5	22.7	20.2
Corsicana[2]	355,908	3	—4	7	27,983	12.7	12.1	13.2
Dallas	77,622,576	—2	18	14	1,727,527	44.6	44.9	40.1
El Paso	5,159,388	—9	0	8	195,291	26.0	28.1	25.7
Fort Worth	15,920,208	0	18	9	528,377	29.8	29.7	27.3
Galveston-Texas City	2,111,592	2	11	10	96,789	21.4	20.8	21.7
Houston	72,766,872	—1	17	12	2,111,416	33.7	33.6	32.5
Laredo	660,984	3	8	13	34,359	19.6	19.9	19.4
Lubbock	3,648,132	—9	2	1	155,044	23.4	25.4	23.6
McAllen-Pharr-Edinburg	1,467,972	2	18	13	88,904	16.5	16.2	16.8
Midland	1,720,248	—4	10	3	121,757	13.9	14.4	13.7
Odessa	1,272,684	—6	3	—2	62,012	20.4	21.5	20.2
San Angelo	918,540	—6	—5	3	60,653	15.2	16.6	17.3
San Antonio	13,669,419	10	18	6	534,489	25.3	23.1	23.4
Texarkana (Texas-Arkansas)	1,306,728	1	15	20	62,417	21.5	21.9	20.4
Tyler	1,696,860	3	8	5	83,893	19.9	19.2	18.8
Waco	2,293,056	—4	11	7	110,741	20.7	21.4	19.5
Wichita Falls	2,080,632	2	8	—3	111,304	18.6	18.3	17.6
Total—27 centers	$241,562,967	—1	15	11	$7,538,012	31.7	31.6	29.7

[1] Deposits of individuals, partnerships, and corporations and of states and political subdivisions.
[2] County basis.
NOTE. — Figures for 1966 have been revised due to the use of new seasonal adjustment factors.

BUILDING PERMITS

Area	NUMBER		VALUATION (Dollar amounts in thousands)				
					Percent change		
	Nov. 1967	11 mos. 1967	Nov. 1967	11 mos. 1967	Nov. 1967 from Oct. 1967	Nov. 1967 from Nov. 1966	11 months, 1967 from 1966
ARIZONA							
Tucson	457	5,845	$ 5,010	$ 26,312	125	75	8
LOUISIANA							
Monroe-West Monroe	69	836	500	16,981	—68	—75	—9
Shreveport	292	3,788	2,957	29,373	47	—5	8
TEXAS							
Abilene	43	553	233	9,020	—21	38	—30
Amarillo	100	1,457	1,067	19,141	—28	18	—40
Austin	393	4,174	27,613	122,816	433	251	66
Beaumont	35	1,578	881	16,336	—44	—30	13
Brownsville	129	788	142	3,046	—44	1	—13
Corpus Christi	508	4,428	2,340	31,759	2	—34	—1
Dallas	1,474	19,910	14,084	263,840	—54	—6	51
El Paso	400	5,012	5,549	54,314	2	—19	—1
Fort Worth	602	6,843	8,912	86,263	44	180	22
Galveston	95	1,042	498	10,390	58	20	—8
Houston	2,274	22,883	34,349	388,687	22	—16	23
Laredo	33	342	119	3,920	—30	—40	52
Lubbock	87	1,434	1,364	29,045	—64	5	—48
Midland	44	874	297	12,719	—75	—1	—4
Odessa	57	965	180	5,899	—74	—21	—46
Port Arthur	50	828	2,385	5,578	483	1,093	17
San Angelo	58	757	413	9,459	—26	—69	4
San Antonio	994	13,108	14,863	108,196	41	327	35
Texarkana	53	473	543	3,983	52	216	—31
Waco	251	3,274	689	15,984	—10	—79	15
Wichita Falls	56	748	405	18,744	5	—57	32
Total—24 cities	8,554	101,940	$125,393	$1,291,805	18	26	20

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
1965: November	8,867	4,120	4,747	5,463	2,647	2,816
1966: November	8,914	4,061	4,853	5,751	2,581	3,170
1967: June	8,968	4,197	4,771	6,282	2,707	3,575
July	9,195	4,302	4,893	6,285	2,670	3,615
August	9,178	4,268	4,910	6,394	2,742	3,652
September	9,426	4,408	5,018	6,398	2,743	3,655
October	9,511	4,448	5,063	6,457	2,753	3,704
November	9,582	4,417	5,165	6,509	2,744	3,765

VALUE OF CONSTRUCTION CONTRACTS

(In millions of dollars)

Area and type	November 1967	October 1967	September 1967	January—November 1967	January—November 1966
FIVE SOUTHWESTERN STATES[1]	411	486	445	5,097	4,944
Residential building	170	195	163	1,885	1,734
Nonresidential building	150	173	133	1,842	1,596
Nonbuilding construction	91	118	150	1,370	1,614
UNITED STATES	4,258	5,053	4,695	48,977	47,098
Residential building	1,717	1,887	1,741	18,156	16,960
Nonresidential building	1,586	1,874	1,786	18,617	18,123
Nonbuilding construction	956	1,292	1,169	12,204	12,015

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

HARVESTED ACREAGE OF PRINCIPAL CROPS

(In thousands of acres)

Area	1967	1966	Average 1961–65
Arizona	1,067	961	1,101
Louisiana	3,268	2,856	2,441
New Mexico	1,059	981	1,064
Oklahoma	8,965	8,506	8,729
Texas	19,196	18,291	20,972
Total	33,555	31,595	34,307

SOURCE: U.S. Department of Agriculture.

WINTER WHEAT

Area	ACREAGE SEEDED (In thousands of acres)			PRODUCTION (In thousands of bushels)		
	Crop of 1968	Crop of 1967	Crops of 1962–66	Crop of 1968[1]	Crop of 1967	Crops of 1962–66
Arizona	57	55	30	2,280	2,450	1,174
Louisiana	165	165	97	2,310	2,600	1,312
New Mexico	339	372	293	4,407	3,948	4,092
Oklahoma	6,026	6,480	4,912	120,520	88,689	94,946
Texas	5,132	5,578	4,080	71,848	53,216	60,621
Total	11,719	12,650	9,412	201,365	150,903	162,145

[1] Indicated December 1, 1967.
SOURCE: U.S. Department of Agriculture.

NONAGRICULTURAL EMPLOYMENT

Five Southwestern States[1]

Type of employment	Number of persons			Percent change Nov. 1967 from	
	November 1967p	October 1967	November 1966r	Oct. 1967	Nov. 1966
Total nonagricultural wage and salary workers	5,762,700	5,729,900	5,586,500	0.6	3.2
Manufacturing	1,053,800	1,048,600	1,025,500	.5	2.8
Nonmanufacturing	4,708,900	4,681,300	4,561,000	.6	3.2
Mining	220,200	220,300	232,900	—.1	—5.1
Construction	375,000	377,900	386,100	—.8	—2.9
Transportation and public utilities	436,900	434,900	424,500	.5	2.9
Trade	1,341,100	1,328,000	1,301,900	1.0	3.0
Finance	281,000	280,600	271,900	.1	3.3
Service	859,900	855,000	816,800	.6	5.3
Government	1,194,800	1,184,600	1,126,900	.9	6.0

[1] Arizona, Louisiana, New Mexico, Oklahoma, and Texas.
p — Preliminary.
r — Revised.
SOURCE: State employment agencies.

CITRUS FRUIT PRODUCTION

(In thousands of boxes)

State and crop	Indicated 1967	1966	Average 1961–65
ARIZONA			
Oranges	3,800	3,910	2,008
Grapefruit	3,000	1,680	2,720
TEXAS			
Oranges	1,300	2,800	952
Grapefruit	1,800	5,600	1,814

SOURCE: U.S. Department of Agriculture.

DAILY AVERAGE PRODUCTION OF CRUDE OIL

(In thousands of barrels)

Area	November 1967p	October 1967p	November 1966	Percent change from October 1967	Percent change from November 1966
ELEVENTH DISTRICT	3,576.8	3,576.9	3,410.1	0.0	4.9
Texas	3,087.9	3,086.4	2,938.5	.0	5.1
Gulf Coast	613.3	612.0	545.4	.2	12.4
West Texas	1,428.2	1,426.6	1,371.8	.1	4.1
East Texas (proper)	139.2	142.8	126.8	—2.5	9.8
Panhandle	93.8	93.6	97.0	.2	—3.3
Rest of State	813.4	811.4	797.5	.2	2.0
Southeastern New Mexico	318.5	315.8	321.9	.9	—1.1
Northern Louisiana	170.4	174.7	149.7	—2.5	13.8
OUTSIDE ELEVENTH DISTRICT	5,411.9	5,261.3	5,017.9	2.9	7.9
UNITED STATES	8,988.7	8,838.2	8,428.0	1.7	6.7

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

INDUSTRIAL PRODUCTION

(Seasonally adjusted indexes, 1957-59 = 100)

Area and type of index	November 1967p	October 1967	September 1967	November 1966
TEXAS				
Total industrial production	160.1	159.1	159.4r	150.3r
Manufacturing	179.4	177.5	177.2	168.9r
Durable	204.3	200.1	199.2	185.4r
Nondurable	162.8	162.4	162.6	157.9r
Mining	123.0	123.3	127.1r	115.9
Utilities	207.6	207.6	193.1r	189.0
UNITED STATES				
Total industrial production	159.0	156.0	157.0	159.0r
Manufacturing	161.0	158.0	158.0	162.0r
Durable	164.0	160.0	161.0	168.0r
Nondurable	157.0	155.0	154.0	154.0r
Mining	123.0	121.0	125.0	122.0r
Utilities	186.0	186.0	185.0	179.0r

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