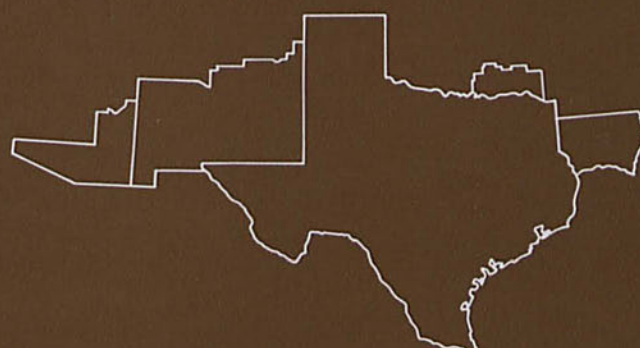
business review



october 1968

FEDERAL RESERVE
BANK OF DALLAS

contents

RECENT FINANCIAL DEVELOPMENTS

Is Banking Unique?

An Address by

Dr. Philip E. Coldwell
President
Federal Reserve Bank of Dallas

at the

27th Texas Bankers Conference
Sponsored and directed by
Texas Bankers Association
The University of Texas
Austin, Texas

August 28, 1968

Over the past five years and, in fact, as almost a hallmark of the decade of the 60's, there has been a major change of emphasis in structure and organization of businesses in the United States. Perhaps reflecting prior emphasis upon antitrust action to discourage monopolies, but also the rapid growth of small firms during the immediate postwar period, the recent trend may be a pendulum swing away from the small business and into the larger aggregation of capital control.

The forces bringing this about have been the pressure to develop laborsaving and improved technological equipment, the need to extend production to utilize fully the new methods and machines, the heavy capital requirements for both plant and equipment and working capital purposes, and the desire to diversify companies which found their principal product and principal line of endeavor tied to only one segment of industry and, in a few cases, to a volatile defense connection. To some extent, the move toward larger aggregates also reflects the difficulties of obtaining qualified management, the need to innovate in an intensely competitive environment, and the very American characteristic of growth for the sake of bigness and enlargement of corporate influence. Perhaps even the emphasis of the United States tax laws, the possibilities of deferring capital gains and of growing without tax penalty by means of merger with noncomparable product companies, is a factor in the new move toward conglomerates. Some of the recent take-overs and mergers were probably originated to obtain new funds as an alternate to issuing corporate debt instruments or borrowing from banks. This impression is emphasized by the tendency of some companies to reach into the banking industry to obtain control of financial institutions for credit sources.

This quick overview of the recent changes in business corporate structure and diversification of product lines has obvious implications for the banking industry. The question we face today is one which we have faced many times, but perhaps in a slightly different fashion: "Is banking a business comparable to steelmaking, aircraft manufacturing, or a host of other industries; or is banking unique and to be treated in an entirely different way in the public interest?" Perhaps it would be well to begin our discussion of this matter by reviewing some of the same forces impacting upon banking structure that have developed in the business changes referred to above.

Certainly, banking has seen a marked change in its focus over the past 20 years. A large number of new units chartered into the banking industry have brought additional competition and intensified the hunt for capable leaders. Management has become a major problem to the banking industry, in both quantity and quality. The significant changes in methods of doing business, the advent of data processing, and the steady encroachment of internal and external banking system competitors have brought demands for management talent far exceeding those of banking even 20 years ago.

Concurrently, the customer mix has shifted markedly with heavier capital requirements and demands for materially longer and larger loans. Broadened service requirements and enlarged roles of banks in local financing needs, as well as the recent change in deposit mix toward larger proportions of time and savings deposits, have had a real impact upon bank lending and investing policies. These same factors, along with many others, are spurring bank considerations of mergers, consolidations, holding companies, and even product or service diversification.

The changes in banking and its responses to those changes focus our attention even more sharply upon the character of this industry and its relationship to the public interest which must be served. The fundamentals of the question regarding the character of this industry can be stated in a number of different ways. In the traditional sense, are the stockholders and purchasers of corporate debt instruments in a different position from the capital ownership and depositors of a commercial bank? Similarly, are the sources of funds available to banks markedly different from those available to business? Are the uses of these funds sufficiently different to require a distinctly different public policy? I submit that the changes over the postwar period have materially blurred some of the distinctions formerly made between banking and other types of business, though there remains a fundamental credit creation by banking which other industries cannot duplicate.

Banking today must draw upon funds for capital growth from markets which are tapped by other businesses as well and, in competition with those businesses, must provide a meaningful rate of return commensurate with risk sufficient to acquire the needed capital. In many ways banks with funds to make loans or investments are not wholly different from the corporations which use their funds in both the investment and working capital sense. Even the repayment requirements of banking and other industries are not materially different today, as business must make a return on its capital just as banks attempt to do for their stockholders, and business must repay its short- and long-term debt just as banks must be ready to repay CD holders and investors in debentures. Thus, in some areas banking is comparable to other businesses, but in the basic depositor relationships there is still something unique to the banking industry.

While the banking industry may have many elements in common with other businesses, there are still elements of confidence and trust required in handling the money supply of the Nation and an element of credit creation which distinguish this industry from its counterparts in other business pursuits. Demand deposit liabilities of banks are the major share of the Nation's money supply, and no other business has such liabilities. Moreover, only the banking system can multiply these deposits on a given base of excess reserves.

In the use of the lendable funds and the banking industry's competitive position, there has been a shift of positions which perhaps now should be recognized in the public mind and in governmental control and regulation of this industry. While banks provide a large share of the working funds for business operations and growth, the new world of business has found other sources and other techniques to meet these same requirements. Banking today is not the only source of funds and, in fact, in some areas is a declining source. The growth of Federal credit sources for agriculture and business, the growth of Euro-dollar financing, the substantial enlargement of the commercial paper market, and the heavy corporate financing issues may all be symptoms of the multiplicity of sources of funds competing with the traditional banking industry.

Even within the financial institutional structure there have been changes permitting savings and loan associations, insurance companies, credit unions, factoring groups, and even private investors to absorb larger and larger roles in the provision of funds for routine lending transactions. To meet the profit impact of this intense competition for their traditional role as lenders in the short run, banks have sought both to merge into larger units and to expand their influence into other industries by one-bank holding company relationships, ownership of equities through trust and investment accounts, and finally the creation of subsidiary corporations largely devoted to nonbank and even nonfinancial pursuits.

One of the central questions of today, then, is "Should this trend be permitted, encouraged, or discouraged in the public interest?" It has been a basic tenet of regulation in the banking industry that banks are supervised and regulated because the public interest requires regulation of an industry whose deposits serve as the money supply or savings of the people and because the depositor needs protection from unsound banking practices, mismanagement, and other similar problems of the past. Regulation has focused upon fostering competition among financial institutions and within the banking industry and yet preserving a protected position for banks.

The merger cases of today are replete with considerations of the competitive or anticompetitive factors impinging upon a particular situation. Public policy has encouraged new bank formations in specific situations and has broadened the authority of nonbank financial competitors. We must also recognize though that regulation has, to some extent, protected the banking industry, for entrance into this industry must be by charter, approved by a public body, and limits on the cost of the funds are similarly regulated to protect against the banker who seeks a quick profit despite the marginal cost of the funds.

Regulation is thus a two-way street for the banking industry, but probably few other industries are required to maintain as detailed records and reports to reflect developments which might impinge upon public policy requirements. Banking is unique in this respect and in respect to national monetary policy, although even here the events of the past 25 years now seem to dictate a much wider scope for policies to be set in the national interest to encompass more of those industries which provide capital and working funds, rather than just strictly the commercial banking industry.

Some observers have suggested that the fulcrum upon which monetary policy operates should be widened substantially to include all basic financial institutions, whether of a bank or nonbank character. Such a move, if ever accomplished, may be feasible only through the extension of reserve requirements to all banking institutions. The Nation expects an equitable and efficient monetary policy, but that policy must be effectuated in its primary impact only through the member commercial banks. Other observers have contended that in recent years, because of the small base from which monetary policy must be implemented, the actions of the monetary authorities have been accentuated perhaps beyond the needs of the moment in order to have the ramifying effects necessary in other segments of the economy.

Recent publicized discussions seem to imply that the nonmember bank responds to monetary restraint in the same way as the member bank and that extension of reserve requirements is, therefore, not needed. In fact, reference was made to the late summer of 1966 as an example demonstrating the overall effectiveness of monetary policy, even with its limited base. In my opinion, the heavy-handed restraint of that period demonstrates both the inequities and the effectiveness of monetary policy. If a much broader base were developed, policy moves might be somewhat more moderate, but broadening the base of monetary action will by no means guarantee perfect timing or results, nor perfect equity in application. Whether a broader base might moderate the excesses of tightness or ease in policy actions, the rapid and overcorrecting swings in policy, or provide for quicker impact upon all elements has not yet been proven or accepted.

The broadening of authority in nonbank financial institutions, especially the savings and loan associations through the recently passed Housing Act, will further intensify direct competition with the banking industry by institutions which are not subject to the same rules and regulations as banking and which do not have the responsibilities in the field of basic monetary policy implementation for the entire economy. One could say some of the same things about credit unions, insurance companies, mutual savings banks, factoring companies, and even some of the major corporations though the direct relationships to banking are much weaker. If monetary policy is to continue to accept the primary burden of stabilization control — and it would appear that this is a logical conclusion from the most recent difficulties of obtaining fiscal action — then I submit that monetary policy should be based as broadly as is needed for effective control, with equitable impacts on all elements of the economy and with as prompt reflection of action in these elements as can be achieved.

As can be seen by the matters heretofore mentioned, I believe there remains a unique character to the banking industry which requires more than usual public surveillance and even regulation in the public interest. Perhaps we should recapitulate the elements which set this industry apart from other businesses.

First, the banking industry operates in a manner which creates credit with a multiplier through lending and deposit creation. No other industry can achieve this, and the power to do this warrants careful attention. Secondly, the power of creation and the element of expansion through credit are fundamental to the well-being of the Nation's economy and must be closely controlled to avoid the excesses of expansion and contraction which are inherent in the system. Thirdly, banking represents a part of the financial structure of the Nation which, through its efforts, must retain the confidence of the people in the integrity and safety of their currency. Thus, it is in the public interest to regulate banking, supervise its operations, and require its adherence to both basic principles of conduct and rules to set the aggregate of credit use in the best interests of a sound and growing economy.

There still remains a debatable question of how many restraints are required, how much regulation is needed, and whether the principles and implementation of regulation are keeping pace with the changing economic and financial environment. We could spend hours discussing the need for each regulation or restriction and, similarly, many hours debating the merits of the present structure of regulatory agencies. I would rather discuss the last of these questions, for I believe it contains most of the elements which can answer the first two questions.

In a slightly different wording, then, I propose to look at the question of whether regulation is keeping pace or is unduly restricting the growth and diversification of banking. While I would insist upon the basic tenet that regulation is required, I am convinced that it need not be repressive and, in fact, should encourage sound expansion and better service to a steadily wider range of customers.

It seems to me that a wider range of opportunities could be opened to the banking industry, in keeping with some of those opportunities which other industries and corporations have developed in diversifying their sources of funds and possibilities for profit. The opportunities for diversification are apparent even in bank-related activities.

The overseas or foreign investment, lending, and servicing activities represent a broad field of endeavor which offers possibilities inherent in the Euro-dollar, Euro-bond, and other Euro-currency transactions, opportunities in financing foreign manufacturing and trade outlets, and increasing opportunities for export financing. These would appear to be a natural concomitant of domestic banking activities, and I would encourage the banks of this District to look toward such foreign connections, especially with our neighbors to the South. At present, of course, I must reserve my encouragement to those who can enter these fields through branches, Edge Act corporations, and equity ownership of foreign banks within the guidelines of the Voluntary Foreign Credit Restraint Program. Even within this program, however, there are elements of opportunity which only a few of you have started to explore.

Other opportunities in bank-related areas include the computer servicing of customer accounts, insurance relationships for loan accounts, the entire range of computer handling of billings, and the resultant closer ties to such industries as utilities, department stores, and oil companies. It does not seem unreasonable to me to permit banks to utilize fully the potentials of their computer installations in any way which retains an arm's-length dealing with customers. Even the on-line real-time applications and rentals look like possibilities where bank computer capacity exceeds that needed for routine operations. Certainly, the concentrations of bookkeeping and check handling are ideal uses for bank computers for both other banks and even nonbank financial institutions. In fact, I can visualize the central handling of checks as a step in the direction of direct funds transfers, either as an initial collecting point or as ultimate checkless operations. So much progress has been made along these lines that the mechanism for remittances has fallen out of step and needs updating to a modern automatic charge plan for all banks. We hope to introduce such a plan for District-wide use by early 1969.

The remaining point in our discussion of bank expansion and diversification concerns bank ownership or participation in nonfinancial enterprises in a manner similar to conglomerates.

Some qualified observers of the banking industry argue that if nonbank holding companies can purchase banks, then banks should be permitted equal rights in purchasing nonbank enterprises. This assumes that it is in the public interest to permit bank ownership by such holding companies. I suggest that there are at least a few undesirable elements to such ownership. If, as we contended previously, the banking industry retains a unique flavor by position, authorities, and operations, entry into this field must be carefully controlled. We do limit the establishment of new banks, but the transfer of ownership of existing banks is almost unregulated.

I have previously spoken about the abuses I see in the bank stock loan arrangements. There are similar potential abuses in the holding company purchases of banks. Let me hasten to say that I do not favor a legislative prohibition on such transfers, but merely regulation to limit the abuses and to keep the most dedicated, competent bank management free from stockholder pressures to accommodate loans which are questionable credits. Of course, we cannot indict all holding company ownership nor all owners who obtain bank stock loans, but there are sufficient evidences of abuse which appear to warrant some control.

Where does this leave us with regard to bank diversification into nonbank-related activities? Can we establish a significant difference between the bank as the parent versus the bank as the subsidiary? I am hard pressed to draw too fine a line of demarcation, but I believe there is a gray area within which it would still be in the public interest to permit bank expansion and diversification while limiting, in like fashion, bank take-overs by nonfinancial holding companies.

Stated in another way, I can see possibilities of bank investment and ownership of industries related to banking and industries which require the management talent and credit sources available at banking institutions; but I suggest that there are sufficiently unique characteristics in banking to limit the willingness of supervisors and legislators, to permit only a smaller and more restrictive range of acquisition of these outside corporations.

The apparent trend toward a department-store concept of financial institution which could offer the services of all present types suggests a reconsideration of the separation of banking and investment functions in our economy. In my opinion, we have already come a long way toward the blending of certain functions, though I will readily admit that the deposit creation powers of the banking system have not as yet been passed to the other, nonbank financial institutions. I am prepared to agree to a restudy of this relationship to see if the abuses and dangers which brought separation in the 1930's are still present in the environment of the 1960's. We have come a long way in modifying our financial structure in the past 30 years, and perhaps this separation is one of those carry-over restraints which need no longer exist. I do not know the answer but suggest that a reappraisal after 30 years is not unreasonable.

Another area in which change has outdated regulation is in the Federal Reserve discount window. Fortunately, a study has been made of this regulation, and the suggested changes are in your hands. I hope you will study them carefully and send to us your comments and criticisms. We want to make the discount mechanism as useful and helpful a tool as possible within the requirements of maintaining overall monetary control. I think the new mechanism will do just that, but we need your thoughts about it.

A part of the new discount approach is to help the banks meet short-run adjustments and enable them to devote most of their lendable funds to helping their communities. Certainly, the banking community needs to grow with the commercial community, for if units of the banking industry do not keep pace with the size of their customers, then the servicing of these customers must be steadily concentrated into the hands of only a few very large banks. This would represent to me a greater hazard for competition and be farther away from the public interest than if banking were permitted to expand into other fields or, certainly, grow by mergers and holding companies.

It would seem unfortunate to me if the banks of the Eleventh District could not grow to meet their customers' needs and handle the credit requirements of these customers within this region. In terms of the near-term future, this must obviously mean some rapid expansion of a sizable number of banks by whatever route is determined feasible and will best serve the public interest.

district highlights

Industrial production in Texas during August is estimated at 170.0 percent of its 1957-59 base, up fractionally from the July level but about the same as in June. In manufacturing, the production of both durable and nondurable goods held slightly above the respective July levels. Most of the month-to-month changes in output of the manufacturing industries were small and largely offsetting. Mining output rose about 1 percent, with strength especially evident in the metal, stone, and earth minerals industry.

As compared with August 1967, total industrial production in the State was up 4.5 percent. The output of durable manufactures was 11 percent larger; and nondurables, nearly 8 percent higher. The strong performance in manufacturing was partially offset by a year-to-year decrease of 5 percent in mining output, due entirely to the lower level of crude petroleum production. Crude petroleum output last year was quite high as a result of the demands stemming from the Middle East oil crisis.

In August, nonagricultural wage and salary employment in the five southwestern states totaled 5,958,000, down fractionally from the previous month. The month-to-month easing was about as seasonally expected. Manufacturing employment also decreased seasonally in August, but nonmanufacturing employment declined slightly more than is usual for this time of the year. Within the nonmanufacturing sector, construction and government employment each showed a little less than the usual strength.

Total southwestern nonagricultural employment in August was 3.8 percent above a year earlier, with the manufacturing work force showing a gain of nearly 5 percent. The number of workers in nonmanufacturing industries exceeded a year ago by 3.5 percent; mining and services posted the largest increases among the nonmanufacturing categories.

In the Eleventh District, daily average production of crude oil declined 1 percent during August and was almost 8 percent below output in the same month last year. Texas posted a larger monthly decrease than the District as a whole, with east Texas having a decrease of 2.4 percent. Southeastern New Mexico and northern Louisiana showed very little change for the month. Production in virtually every area in the District declined on a year-to-year basis. As was true during July, comparison of August output with a year earlier reflected the extraordinarily high levels of output last year stemming from the Middle East crisis. The Texas allowable was set at 44.8 percent and 41.3 percent of the Maximum Efficient Rate of production for August and September, respectively. For October, the Texas allowable is unchanged, and there is a small reduction in the Louisiana allowable.

Capline, the Nation's largest crude oil pipeline, has begun to deliver oil from southern and offshore Louisiana to the Middle West; and throughput at the end of September is estimated at 300,000 barrels per day. Eventually, the pipeline is expected to deliver 1 million barrels per day. Many connecting pipelines need to be completed before Capline can reach full capacity. Yet to be resolved is the problem of the allocation of the middle western crude oil market between Canadian and southwestern crude oil suppliers.

August registrations of new passenger automobiles in the major market areas of Dallas, Fort Worth, Houston, and San Antonio were

6 percent lower than in the previous month but 18 percent higher than in the same month a year ago. Cumulative registrations were up in each of the markets, and the total for the four areas was 18 percent above the January-August period last year.

Department store sales in the Eleventh District in the 4 weeks ended September 21 were 15 percent more than in the corresponding period in 1967; both periods included the Labor Day holiday. Cumulative sales were 13 percent stronger than in the comparable period last year.

Cotton conditions in the five Eleventh District states have improved; and, as of September 1, production in 1968 is expected to be around 5 million bales, or 1 million bales greater than the 1967 crop. Estimates of sorghum grain production and rice output have been reduced slightly, but outturns for both crops are indicated to be higher than their respective 1967 figures. Much of the increased production of these two crops can be attributed to the above-normal moisture conditions that have prevailed over most of the District.

Range and livestock conditions are about normal; the eastern section has been receiving adequate rainfall, while the western half of the District is experiencing dry weather and deteriorating grazing conditions. On September 1, there were 855,000 head of cattle and calves on feed in Texas for slaughter market, which is 39 percent above the number on feed a year ago. Placements during August totaled 215,000 head.

Prices received by Texas farmers and ranchers for all farm products during January-August averaged 2 percent above the corresponding period last year. Prices for crops were up 1 percent, and those for livestock and livestock products were 4 percent higher. In August, the monthly index of prices received by Texas farmers and ranchers for all farm products advanced 9 percent over the previous month. A sharp increase in the price for cotton was the primary reason for the August gain.

Cash receipts from farm marketings in the District states during the first 7 months of 1968 were about unchanged from the corresponding period in 1967. The increase in livestock receipts offset the decline in crop receipts.

Changes in the major balance sheet items were mixed at the District's weekly reporting commercial banks in the 4 weeks ended September 11. Total investments and total demand deposits advanced, but loans adjusted and total time and savings deposits declined. In most cases, the changes suggest less strength than in the comparable year-earlier period. Negotiable time certificates of deposit issued in denominations of $100,000 or more decreased nominally — in sharp contrast to the previous 4-week period, when they rose sharply, $103 million.

Loans adjusted declined $39 million during the 4 weeks ended September 11, or almost double the reduction in the comparable period in 1967, as loans to nonbank financial institutions and business loans fell $29 million and $26 million, respectively. A year ago, loans to nonbank financial institutions advanced $29 million, while business loans decreased $4 million. In contrast to the decline in loans, total investments showed a sharp rise of $91 million; a $110 million increase in U.S. Government security holdings, attributable entirely to notes and bonds, more than offset a slight reduction in non-Government holdings.

Among the liability items, total demand deposits rose $112 million as increases of $128 million and $48 million, respectively, in interbank deposits and in deposits of individuals, partnerships, and corporations more than offset declines in U.S. Government deposits and in deposits of states and political subdivisions. The rise in IPC demand deposits was less than one-half the gain in the comparable period a year ago. Total time and savings deposits declined slightly, $21 million, primarily because of a $15 million dip in time deposits of states and political subdivisions. The nominal decrease in negotiable time certificates of deposit issued in denominations of $100,000 or more indicated that the large banks in the District apparently had built their CD position up to a satisfactory level, given the state of current and expected loan demand.

ELEVENTH FEDERAL RESERVE DISTRICT

FEDERAL RESERVE BANK OF DALLAS

11-K

DALLAS, TEXAS

STATISTICAL SUPPLEMENT

to the

BUSINESS REVIEW

October 1968

FEDERAL RESERVE BANK
OF DALLAS

CONDITION STATISTICS OF WEEKLY REPORTING COMMERCIAL BANKS

Eleventh Federal Reserve District

(In thousands of dollars)

Item	Sept. 25, 1968	Aug. 28, 1968	Sept. 27, 1967
ASSETS			
Net loans and discounts	5,917,128	5,830,024	5,195,267
Valuation reserves	*105,521*	*105,491*	*93,935*
Gross loans and discounts	6,022,649	5,935,515	5,289,202
Commercial and industrial loans	2,757,522	2,715,407	2,523,743
Agricultural loans, excluding CCC certificates of interest	89,824	95,893	100,334
Loans to brokers and dealers for purchasing or carrying:			
U.S. Government securities	36,107	8,639	15,012
Other securities	21,478	23,746	59,832
Other loans for purchasing or carrying:			
U.S. Government securities	573	592	604
Other securities	351,963	337,647	324,555
Loans to nonbank financial institutions:			
Sales finance, personal finance, factors, and other business credit companies	142,152	138,659	188,524
Other	340,211	338,450	266,952
Real estate loans	581,487	572,602	504,505
Loans to domestic commercial banks	473,224	495,722	186,346
Loans to foreign banks	5,917	5,478	5,686
Consumer instalment loans	606,941	604,226	537,527
Loans to foreign governments, official institutions, central banks, international institutions	0	0	0
Other loans	615,250	598,454	575,582
Total investments	2,683,273	2,495,899	2,565,390
Total U.S. Government securities	1,260,631	1,107,134	1,249,736
Treasury bills	30,490	20,650	190,322
Treasury certificates of indebtedness	0	0	0
Treasury notes and U.S. Government bonds maturing:			
Within 1 year	353,547	205,538	162,675
1 year to 5 years	597,761	582,809	658,423
After 5 years	278,833	298,137	238,316
Obligations of states and political subdivisions:			
Tax warrants and short-term notes and bills	29,762	26,362	35,280
All other	1,200,339	1,168,660	1,057,728
Other bonds, corporate stocks, and securities:			
Participation certificates in Federal agency loans	127,221	124,471	151,479
All other (including corporate stocks)	65,320	69,272	71,167
Cash items in process of collection	968,782	883,350	863,915
Reserves with Federal Reserve Bank	787,908	736,260	723,540
Currency and coin	85,384	84,550	78,923
Balances with banks in the United States	502,282	420,065	470,887
Balances with banks in foreign countries	4,845	5,307	6,318
Other assets	358,484	355,749	337,589
TOTAL ASSETS	11,308,086	10,811,204	10,241,829
LIABILITIES			
Total deposits	9,489,707	9,155,083	8,732,800
Total demand deposits	5,710,935	5,377,862	5,317,770
Individuals, partnerships, and corporations	3,899,020	3,750,581	3,657,638
States and political subdivisions	240,859	267,282	273,971
U.S. Government	267,740	114,903	173,616
Banks in the United States	1,200,053	1,139,343	1,124,938
Foreign:			
Governments, official institutions, central banks, international institutions	9,374	5,676	2,461
Commercial banks	21,431	20,759	22,342
Certified and officers' checks, etc.	72,458	79,318	62,804
Total time and savings deposits	3,778,772	3,777,221	3,415,030
Individuals, partnerships, and corporations:			
Savings deposits	1,045,983	1,043,301	1,121,636
Other time deposits	2,057,084	2,049,270	1,749,345
States and political subdivisions	635,631	646,098	505,512
U.S. Government (including postal savings)	12,835	10,206	12,340
Banks in the United States	22,539	22,646	24,197
Foreign:			
Governments, official institutions, central banks, international institutions	4,500	5,500	800
Commercial banks	200	200	1,200
Bills payable, rediscounts, and other liabilities for borrowed money	651,949	506,614	424,917
Other liabilities	240,394	222,446	195,050
CAPITAL ACCOUNTS	926,036	927,061	889,062
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	11,308,086	10,811,204	10,241,829

RESERVE POSITIONS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. In thousands of dollars)

Item	4 weeks ended Sept. 4, 1968	5 weeks ended Aug. 7, 1968	5 weeks ended Sept. 6, 1967
RESERVE CITY BANKS			
Total reserves held	720,918	711,608	661,632
With Federal Reserve Bank	670,071	660,633	616,140
Currency and coin	50,847	50,975	45,492
Required reserves	715,179	707,397	658,437
Excess reserves	5,739	4,211	3,195
Borrowings	10,286	18,497	0
Free reserves	—4,547	—14,286	3,195
COUNTRY BANKS			
Total reserves held	708,047	703,935	646,906
With Federal Reserve Bank	535,110	532,203	488,321
Currency and coin	172,937	171,732	158,585
Required reserves	674,339	670,432	608,925
Excess reserves	33,708	33,503	37,981
Borrowings	17,339	9,862	2,785
Free reserves	16,369	23,641	35,196
ALL MEMBER BANKS			
Total reserves held	1,428,965	1,415,543	1,308,538
With Federal Reserve Bank	1,205,181	1,192,836	1,104,461
Currency and coin	223,784	222,707	204,077
Required reserves	1,389,518	1,377,829	1,267,362
Excess reserves	39,447	37,714	41,176
Borrowings	27,625	28,359	2,785
Free reserves	11,822	9,355	38,391

CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(In thousands of dollars)

Item	Sept. 25, 1968	Aug. 28, 1968	Sept. 27, 1967
Total gold certificate reserves	386,715	354,908	432,771
Discounts for member banks	29,010	16,859	1,362
Other discounts and advances	0	0	0
U.S. Government securities	2,198,030	2,189,030	1,967,033
Total earning assets	2,227,040	2,205,889	1,968,395
Member bank reserve deposits	1,228,837	1,164,954	1,118,210
Federal Reserve notes in actual circulation	1,502,818	1,480,757	1,343,631

CONDITION STATISTICS OF ALL MEMBER BANKS

Eleventh Federal Reserve District

(In millions of dollars)

Item	Aug. 28, 1968	July 31, 1968	Aug. 30, 1967
ASSETS			
Loans and discounts	10,191	10,029	8,991
U.S. Government obligations	2,380	2,366	2,439
Other securities	2,814	2,810	2,551
Reserves with Federal Reserve Bank	1,165	1,104	1,049
Cash in vault	252	247	234
Balances with banks in the United States	1,129	1,121	1,100
Balances with banks in foreign countries[e]	7	7	7
Cash items in process of collection	1,002	1,063	861
Other assets[e]	463	477	383
TOTAL ASSETS[e]	19,403	19,224	17,615
LIABILITIES AND CAPITAL ACCOUNTS			
Demand deposits of banks	1,419	1,410	1,366
Other demand deposits	8,282	8,305	7,730
Time deposits	7,233	7,160	6,391
Total deposits	16,934	16,875	15,487
Borrowings	527	453	359
Other liabilities[e]	329	300	248
Total capital accounts[e]	1,613	1,596	1,521
TOTAL LIABILITIES AND CAPITAL ACCOUNTS[e]	19,403	19,224	17,615

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]			
	August 1968 (Annual-rate basis)	Percent change: August 1968 from July 1968	Percent change: August 1968 from August 1967	Percent change: 8 months, 1968 from 1967	August 31, 1968	Annual rate of turnover: August 1968	Annual rate of turnover: July 1968	Annual rate of turnover: August 1967
ARIZONA: Tucson	$ 4,399,020	—9	4	4	$ 186,257	23.5	26.1	25.8
LOUISIANA: Monroe	2,188,356	—7	1	5	84,655	26.3	28.7	27.9
Shreveport	6,252,480	—1	8	7	232,794	27.1	26.7	26.2
NEW MEXICO: Roswell[2]	726,072	—3	18	8	33,656	21.5	22.1	18.1
TEXAS: Abilene	1,877,208	4	10	—2	94,159	20.0	19.5	18.6
Amarillo	5,204,628	1	18	13	149,199	35.2	35.5	32.1
Austin	6,832,752	9	45	25	247,735	27.1	25.5	22.8
Beaumont-Port Arthur-Orange	5,766,060	—4	2	4	235,271	24.3	25.6	25.1
Brownsville-Harlingen-San Benito	1,086,036	—23	—8	9	65,608	16.5	21.0	18.6
Corpus Christi	4,276,848	0	10	11	193,265	22.2	22.4	20.6
Corsicana[2]	370,596	—12	—2	9	28,395	13.6	15.8	12.9
Dallas	88,785,804	—3	15	19	1,956,692	45.3	46.6	42.8
El Paso	5,885,340	—2	6	6	217,490	28.1	30.1	27.9
Fort Worth	19,205,100	6	17	17	578,172	33.5	31.7	31.2
Galveston-Texas City	2,365,368	—1	10	13	110,467	22.0	23.2	22.1
Houston	79,712,592	—1	15	14	2,334,696	34.5	34.6	32.8
Laredo	763,488	—8	13	13	35,904	20.4	22.4	20.0
Lubbock	4,107,312	—7	—8	3	149,659	27.5	29.3	30.5
McAllen-Pharr-Edinburg	1,286,700	—12	—6	6	77,972	15.9	17.5	16.8
Midland	1,733,028	—8	6	7	133,676	13.0	14.4	13.3
Odessa	1,384,272	1	3	6	68,052	20.1	20.1	20.7
San Angelo	1,075,332	5	17	10	63,762	16.9	15.8	16.4
San Antonio	14,306,424	—4	13	16	584,413	24.1	25.1	23.2
Sherman-Denison	941,940	—5	12	10	55,018	17.1	17.8	15.8
Texarkana (Texas-Arkansas)	1,447,776	—2	10	11	65,475	21.9	22.7	21.6
Tyler	1,819,872	—5	9	9	89,494	20.6	22.0	19.6
Waco	2,389,524	—4	2	12	117,978	20.3	21.3	21.1
Wichita Falls	2,274,480	2	3	6	117,157	19.6	20.2	20.0
Total—28 centers	$268,464,408	—2	13	14	$8,307,071	32.4	33.0	30.9

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

BUILDING PERMITS

Area	NUMBER		VALUATION (Dollar amounts in thousands)				
	Aug. 1968	8 mos. 1968	Aug. 1968	8 mos. 1968	Percent change: Aug. 1968 from July 1968	Percent change: Aug. 1968 from Aug. 1967	Percent change: 8 months, 1968 from 1967
ARIZONA							
Tucson	683	4,134	$ 1,895	$ 24,074	—59	—22	42
LOUISIANA							
Monroe-West Monroe	69	562	2,570	15,363	81	101	6
Shreveport	459	3,071	3,452	17,813	61	25	—19
TEXAS							
Abilene	45	362	216	5,767	—63	—27	—27
Amarillo	113	928	1,059	14,317	—61	—64	—11
Austin	419	3,208	12,633	84,563	59	91	1
Beaumont	124	1,110	747	11,522	—49	—67	—10
Brownsville	93	858	149	3,758	—88	—85	43
Corpus Christi	413	3,258	5,443	30,896	18	174	47
Dallas	1,804	14,232	28,911	183,957	7	—29	16
El Paso	367	3,668	4,219	44,879	—12	—7	14
Fort Worth	570	4,311	8,508	60,458	—5	—26	—7
Galveston	81	655	292	8,360	6	—93	—10
Houston	2,117	17,767	35,401	262,894	35	—47	—13
Laredo	41	284	273	1,741	279	—72	—47
Lubbock	102	922	1,920	23,457	—79	—62	3
Midland	39	547	543	9,445	—83	—32	—10
Odessa	61	529	1,545	4,593	487	279	1
Port Arthur	103	666	1,695	4,106	148	514	60
San Angelo	61	522	388	6,999	—25	—39	—14
San Antonio	1,201	9,458	7,641	87,322	43	—46	15
Texarkana	37	326	340	12,364	—96	19	334
Waco	262	2,014	1,440	11,997	38	—44	13
Wichita Falls	75	571	976	8,683	—14	—70	—46
Total—24 cities	9,339	73,963	$122,256	$939,328	—1	—31	1

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
1966: August	8,637	3,982	4,655	5,764	2,670	3,094
1967: August	9,178	4,268	4,910	6,394	2,742	3,652
1968: March	9,510	4,388	5,122	6,935	2,863	4,072
April	9,655	4,486	5,169	6,973	2,869	4,104
May	9,460	4,382	5,078	6,950	2,840	4,110
June	9,548	4,453	5,095	6,964	2,847	4,117
July	9,742	4,554	5,188	7,059	2,921	4,138
August	9,732	4,523	5,209	7,208	3,049	4,159

VALUE OF CONSTRUCTION CONTRACTS

(In millions of dollars)

Area and type	August 1968	July 1968	June 1968	January—August 1968	January—August 1967
FIVE SOUTHWESTERN STATES[1]	806	636	563	4,444	3,966r
Residential building	240	253	233	1,849	1,559r
Nonresidential building	175	186	185	1,283	1,390
Nonbuilding construction	392	196	146	1,313	1,017
UNITED STATES	6,318	5,956	5,589	41,347	36,223r
Residential building	2,295	2,287	2,243	16,660	13,915r
Nonresidential building	2,128	2,414	2,030	14,631	13,472
Nonbuilding construction	1,895	1,255	1,316	10,056	8,837

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

DAILY AVERAGE PRODUCTION OF CRUDE OIL

(In thousands of barrels)

Area	August 1968p	July 1968p	August 1967	Percent change from July 1968	Percent change from August 1967
ELEVENTH DISTRICT........	3,591.0	3,627.6	3,893.3	—1.0	—7.8
Texas.................	3,135.1	3,171.9	3,397.4	—1.2	—7.7
Gulf Coast...........	623.0	633.2	629.0	—1.6	—1.0
West Texas...........	1,462.4	1,475.2	1,610.6	—.9	—9.2
East Texas (proper).....	150.2	153.8	157.3	—2.4	—4.5
Panhandle............	91.0	91.5	99.7	—.6	—8.7
Rest of State..........	808.5	818.2	900.8	—1.2	—10.3
Southeastern New Mexico..	315.9	315.4	315.2	.2	.2
Northern Louisiana........	140.0	140.3	180.7	—.2	—22.5
OUTSIDE ELEVENTH DISTRICT	5,635.8	5,607.4	5,514.7	.5	2.2
UNITED STATES............	9,226.8	9,235.0	9,408.0	—.1	—1.9

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	August 1968p	July 1968	June 1968	August 1967
TEXAS[1]				
Total industrial production......	170.0	169.2	170.1r	162.7r
Manufacturing.................	193.9	193.4	191.3	177.6r
Durable....................	208.2	207.5	206.7	187.6r
Nondurable.................	184.4	184.0	181.0	171.0r
Mining......................	127.3	126.0	129.1r	133.9r
Utilities.....................	210.0	210.0	224.9r	201.3
UNITED STATES				
Total industrial production......	164.0	165.6	165.2	158.1
Manufacturing.................	165.1	166.9	166.7	159.4
Durable....................	168.1	171.2	170.7	163.6
Nondurable.................	161.4	161.5	161.6	154.0
Mining......................	130.3	130.5	128.9	127.8
Utilities.....................	197.7	198.2	197.7	185.4

[1] Reflecting the use of improved man-hour productivity factors as of May 1968, the Texas industrial production index has been revised slightly back through 1958.
p — Preliminary.
r — Revised.
SOURCES: Board of Governors of the Federal Reserve System.
Federal Reserve Bank of Dallas.

CROP PRODUCTION

(In thousands of bushels)

Crop	TEXAS 1968, estimated Sept. 1	TEXAS 1967	TEXAS Average 1962–66	FIVE SOUTHWESTERN STATES[1] 1968, estimated Sept. 1	FIVE SOUTHWESTERN STATES[1] 1967	FIVE SOUTHWESTERN STATES[1] Average 1962–66
Cotton[2].........	3,450	2,767	4,223	5,040	4,000	6,110
Corn...........	24,232	18,658	23,729	34,460	27,515	33,434
Winter wheat....	85,806	53,216	60,621	222,015	150,903	162,145
Oats...........	20,876	6,615	17,217	26,754	11,533	23,946
Barley..........	3,584	1,350	3,497	26,158	18,007	22,249
Rye............	475	350	417	1,240	909	1,267
Rice[3]...........	29,280	25,908	19,394	56,400	47,943	37,094
Sorghum grain...	367,198	343,485	253,013	432,327	409,267	294,492
Flaxseed.......	744	150	741	744	150	741
Hay[4]...........	4,362	3,774	3,093	10,076	9,568	8,128
Peanuts[5]........	378,300	333,450	262,338	617,500	558,470	455,310
Irish potatoes[6]...	4,382	4,329	3,082	7,816	7,892	6,069
Sweet potatoes[6]..	960	810	842	5,548	5,008	4,807
Pecans[5].........	50,000	34,000	39,400	84,000	111,400	94,000

[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: U.S. Department of Agriculture.

NONAGRICULTURAL EMPLOYMENT

Five Southwestern States[1]

Type of employment	Number of persons August 1968p	Number of persons July 1968	Number of persons August 1967r	Percent change Aug. 1968 from July 1968	Percent change Aug. 1968 from Aug. 1967
Total nonagricultural wage and salary workers..	5,958,000	5,965,700	5,740,500	—0.1	3.8
Manufacturing...........	1,113,900	1,118,000	1,062,100	—.4	4.9
Nonmanufacturing........	4,844,100	4,847,700	4,678,400	—.1	3.5
Mining...............	239,300	238,400	226,500	.4	5.7
Construction...........	394,100	392,800	380,600	.3	3.5
Transportation and public utilities........	447,200	446,700	438,100	.1	2.1
Trade................	1,357,900	1,354,200	1,319,500	.3	2.9
Finance...............	290,900	290,700	282,500	.1	3.0
Service...............	925,100	922,700	880,400	.3	5.1
Government...........	1,189,600	1,202,200	1,150,800	—1.1	3.4

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

COTTON PRODUCTION

Texas Crop Reporting Districts

(In thousands of bales — 500 pounds gross weight)

Area	1968, indicated Sept. 1	1967	1966	1968 as percent of 1967
1-N – Northern High Plains..........	270	258	260	105
1-S – Southern High Plains..........	1,375	937	1,085	147
2-N – Red Bed Plains..............	260	218	177	119
2-S – Red Bed Plains..............	360	234	338	154
3 – Western Cross Timbers........	20	12	18	167
4 – Black and Grand Prairies......	370	264	484	140
5-N – East Texas Timbered Plains....	25	19	29	132
5-S – East Texas Timbered Plains....	40	39	42	103
6 – Trans-Pecos.................	160	158	127	101
7 – Edwards Plateau.............	50	23	27	217
8-N – Southern Texas Prairies.......	70	54	95	130
8-S – Southern Texas Prairies.......	95	98	134	97
9 – Coastal Prairies.............	85	117	82	73
10-N – South Texas Plains..........	30	20	33	150
10-S – Lower Rio Grande Valley......	240	316	251	76
State.........................	3,450	2,767	3,182	125

SOURCE: U.S. Department of Agriculture.