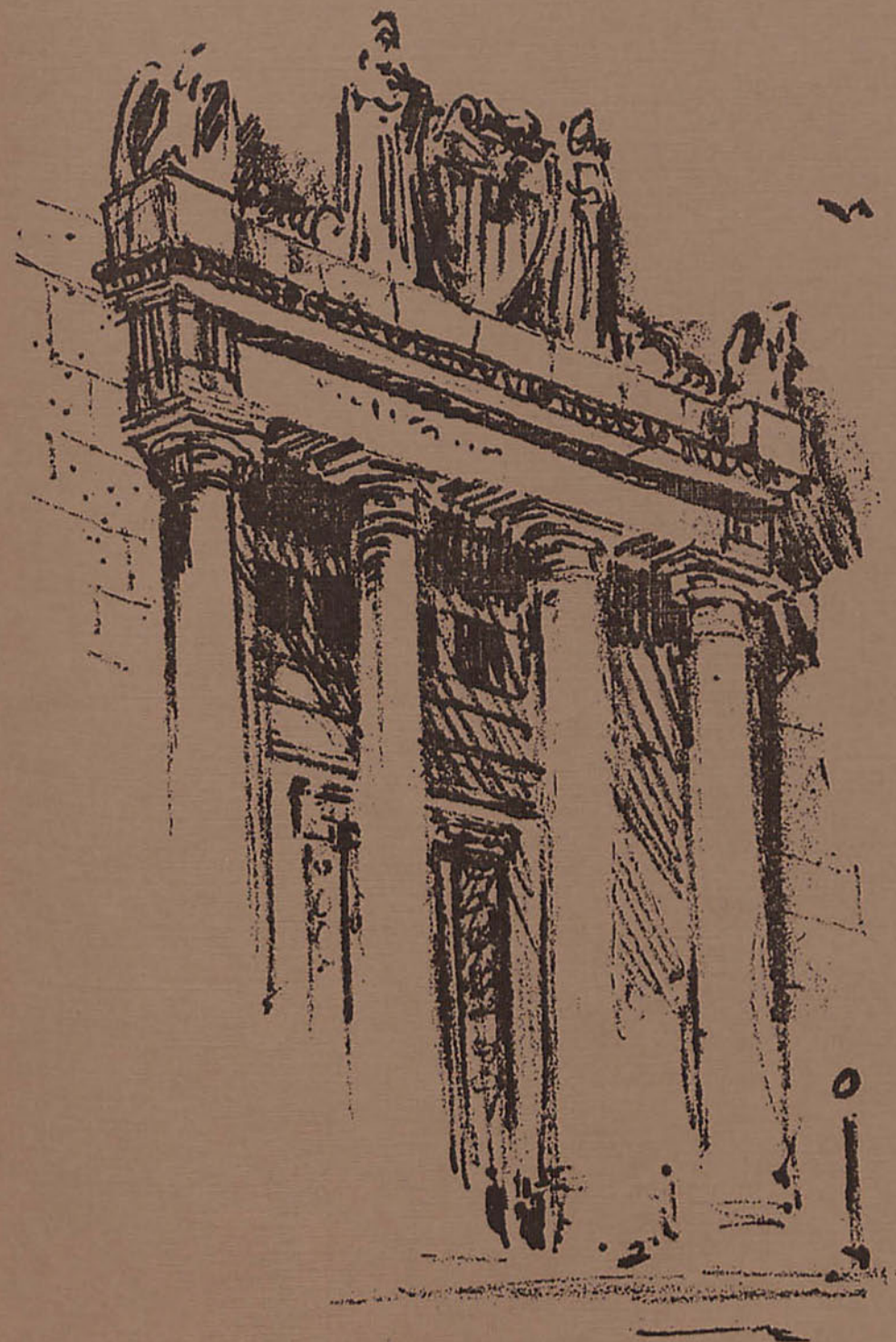


Federal Reserve Bank of Dallas

Business Review



**Some Financial Guides
From 1970**

**-An Address by
Philip E. Coldwell**

February 1971

Some Financial Guides from 1970

An Address by

Philip E. Coldwell
President
Federal Reserve Bank of Dallas

at the

Salesmanship Club of Dallas

February 4, 1971

At the beginning of 1971, the near-term economic prospects were less promising than at the start of any other recent year. The nation appeared to be suffering from not only a retrenchment in economic growth measured by gross product, industrial production, and unemployment but also a continuing advance in prices resulting from rising costs and a loss of profit flexibility.

The past year was one of consolidation and adjustment, with the demand pressures subsiding while wage-cost pressures increased. As monetary and fiscal policies finally brought a general slowing of business and consumer spending and as defense spending was curtailed, there was a sizable increase in unemployment. The long uptrend in sales and profits was interrupted, with a consequent strong impact upon the ability of many conglomerates and others to sustain their positions in debt and equity markets. In addition, the cumulative effects of tight money, the higher costs of operation, and the shortfall of sales and profits brought a near-crisis of liquidity for a number of corporations.

In this atmosphere, Government policies shifted toward stimulation and at least moderate monetary ease, and this trend accelerated

throughout the last half of 1970. By the end of the year, the short-run impact was already visible in the sharp declines in interest rates and the developing liquidity at many financial institutions.

Nevertheless, several worrisome matters continue to plague the nation, including the rising level of unemployment, the still-evident price increases, and the enlarging deficits in the domestic budget and the nation's international balance of payments. Bright spots in the economic scene include a developing upswing in residential construction and a supporting advance in state and local government spending. The principal question marks for the economic outlook appear to be the trend of consumer spending, the vigor of the housing upswing, and the degree of curtailment in business capital outlays.

At this season of economic forecasting, there has developed a standard forecast reflecting relatively slow growth in "real" output, an advance of 6 to 8 percent in nominal gross product, and a continuing inflation of about 4 to 5 percent. Most forecasters are predicting some further increase in unemployment, a sharply rising budget deficit, easier money, and lower interest rates. Broadly characterized, the economists are saying 1971 will be a better year than 1970, but without much sparkle or zest.

As usual, however, the timing of changes in the important economic variables and the quarterly trends of overall production vary greatly among the forecasters. Some believe in high-level stagnation for the full year. Others forecast a slow growth in the first half, followed by a strong upswing in the final six months. Still others are predicting a dichotomy of trends, with unemployment peak-

ing and interest rates bottoming out by midsummer and then economic stagnation.

In my opinion, there are many elements of the standard forecast which could easily come true, but my reservations concern the possibilities of a much more rapid recovery and one in which inflation is reinforced rather than dampened. The prime key to a potentially stronger recovery lies with the consumer. If he, after many months of very heavy savings, decides his job is more secure and his income prospects are brighter, he might just move toward a higher purchasing level and thereby restimulate many of the currently lagging industries. At present, most consumer surveys reflect a bearish attitude, but such polls have not always proved to be a true guide to the future and may not in 1971.

Other potentials for a stronger economic outlook exist in the pressure for inventory building as a hedge against a steel strike, a more rapid expansion of U.S. Government spending—especially in the welfare and public works areas, sharper gains in housing, and heavier business spending for labor-saving equipment.

If one merely looks at the economic and financial stimulation already undertaken, it must be evident that powerful forces have been unleashed to reinvigorate the economy. The Government in late 1970 and early 1971 has expanded its spending effort and enlarged its budget deficit, has moved to soften investment tax loads, and is proposing a number of new programs in the welfare and revenue-sharing fields which will sizably increase total spending. In an immediate sense, pay increases of about 6 percent were approved for many federal employees and a further

boost in Social Security benefits is proposed.

Congressional action to date has provided only modest increases in spending, but the potentialities are almost endless. Moreover, congressional concern over the mounting unemployment and slowing business of the nation argues strongly that future spending decisions are likely to be more aggressive. Monetary policy, too, has contributed a sizable measure of stimulus to the future by expanding the money supply, reducing discount rates, and providing commercial bank access to the CD market without rate ceilings for 30- to 89-day maturities.

On balance, then, the chances of a more rapid recovery than presently forecast by many economists are within the realm of possibility. At least there is agreement that the chances of a cumulative downturn are not likely, and, thus, the debate centers on the timing and extent of the recovery. This debate is not meaningless because too rapid a recovery will not permit time for dampening the inflationary cost pressures while, on the other hand, a slow recovery may prolong the economic and social costs of lost sales, unemployment, and underutilization of capacity.

Whatever the trend of the economy in 1971, we should learn from our experiences. Thus, in the remainder of this speech, I will discuss some of the lessons in banking and finance which seem to me to have been demonstrated by the events, policies, and programs of 1970.

The principal financial lessons to be reviewed are those concerned with banking, monetary policy, and fiscal policies of the Government. In the realm of banking, several trends—some not originating in 1970 but evident in the handling of various banking matters in that year—have been particularly troublesome, either to the banks

themselves or from the standpoint of the regulatory or monetary policy aspects of the nation's control over banking. Foremost among these has been the problem of liquidity. While defined a variety of different ways, liquidity to me means an ability to meet one's commitments, to pay the bills required, and to have a sufficient cushion for unforeseen developments.

The liquidity of banks shifted markedly during 1969 and 1970. Throughout the last half of 1969 and early 1970, banks felt strong pressures from extensive loan demands which steadily eroded their margin, or cushion, of liquidity. With a very small growth in demand deposits and an actual decline in time deposits in 1969, many banks found themselves in an almost status quo position from the standpoint of total availability of funds. Against this stability in available funds was a rising demand from business, consumers, and other users of credit.

Many banks lacked short-term investments to liquidate to meet this loan demand. Others had concentrated earlier efforts into enlarging their long-term lending and, thus, lacked normal repayment flexibility. Still others, reflecting decisions made in previous years, were "locked in" to long-term portfolio investments, both in Governments and in municipal securities. Not wanting to liquidate at a sizable loss, the banks' ability to meet enlarged credit demands was hampered.

For a few banks, this pressure of liquidity reached near-crisis proportions in early 1970, and borrowings and nondeposit sources of funds were used to a great extent to alleviate the pressures. Borrowings from the Federal Reserve expanded sharply, and sizable borrowings in the Euro-dollar market became evident in the Eleventh District for the first time. Net purchases of Federal

funds by District member banks mounted steadily to an average exceeding three-quarters of a billion dollars per day in early 1970. By the end of the year, many of these special borrowings had been markedly reduced or eliminated, primarily because the Federal Reserve permitted banks to participate in the 30- to 89-day CD market without interest rate ceilings but also because, in easing monetary policy, the Federal Reserve provided an expansion in the money supply and the reserve base of the banks.

The lesson to be learned, I think, is better forward planning of liquidity and a scheduling of short-term investments which will provide a cushion to meet loan demands during periods of monetary restraint. This may mean some reduced commitments in the long-term area or some decline in the average maturity of investment portfolios. In a sense, this lesson reflects a basic lack of planning. While most bankers are not economists, there are enough published reports available for the majority of bankers to have some advance knowledge, or at least premonition, of the developments leading toward monetary restraint. Preparing for such a period would, I submit, be nothing but normal planning, and yet there were too few banks prepared to take anticipatory actions in portfolio management, interest rates, or long-term commitments.

Similarly, it seems to me that there has been a lack of planning in the sense of a forward look toward new business. This was especially true in the handling of credit cards, which became so prevalent in this District during the past two years. The impact of the credit-card development was apparently underestimated or planning was inadequate, for a number of banks found themselves without adequate data-processing facilities and with insufficient reserves to cover the

losses and slow payments from their accounts.

There has been a rather evident lack of planning on the part of many banks in developing new sources of lendable funds, and some of those that have moved to the new sources of funds have done so in a "follow-the-leader" fashion without recognition of some of the problems inherent in those new sources. Especially evident has been the expansion of bank purchases of Federal funds, in some few cases to levels exceeding 40 percent of deposit totals. While individual banks could argue that this new source was an almost-assured source of funds because of commitments from their subsidiary or correspondent banks, others ventured far and wide, paying rates far in excess of the average and tapping sources of such funds which were, at best, questionable in their permanence.

Another planning failure, or perhaps a "sublesson" to be learned, regards the matter of commitments by banks for lines of credit. Too often in the past, banks have been willing to commit for a line of credit to a corporation, thinking that such lines would not be utilized or, if utilized, would be drawn down only to a small degree. As restraint grew during late 1969 and early 1970, some of these banks found to their sorrow that their commitments were not only firm but binding, and their expense in meeting the commitments was higher than the rates to be obtained. This may have been especially true of a bank which was forced to enter the Eurodollar market at its peak and make a prime rate loan to a national customer.

Of course, for most of what has been mentioned so far, the core problem has been management, and there were other management problems evident in 1970. First, it seems to me that the banking industry has not done an adequate

job in recruiting new employees or in training them to such a degree as to meet the demands for new bank management. Part of this has been because of inadequate salary levels at many banks. At others, there has been a continuous loss of personnel or a threat of unionization because of a lack of attractive fringe benefits or other compensation.

Some bank management also failed to prepare itself for competition, both from other banks and from other financial institutions or newly devised direct-debt competition. It became evident some years ago that banks were going to be forced to pay for a larger proportion of their deposits and that, unless they did a good job of servicing their communities, there was a possibility for a new bank to be chartered, especially in the unit-banking states such as Texas. It also has been abundantly clear that banks were going to be under heavy competition from savings and loan associations, finance companies, credit unions, and farm credit associations. Yet, banks in some of the areas of greatest competition appeared to move ahead with the same old policies and the same old procedures, almost ignoring the development and growth of their competitors.

Finally, from a regulatory and monetary policy standpoint, there was too little support from the banking industry for sound stabilization policies. As in the previous year, there were still banks evading some of the impact of regulations and seeking profit above national interest. We must recognize that banks are profit-making organizations, but bankers are in a specialized public-interest industry, not only in the use of funds owned by the general public but also in the participation in an industry which has vital and important effects upon the health of the national economy. Thus, policies which are adopted by the commercial

banking industry must be in keeping with the high purpose and public responsibility of the industry, placing the public interest in at least an equal position with the profit of the organization. Unfortunately, too many of our banks still see profit as their only goal and primary indicator of success.

It is quite difficult, of course, to ask individuals in a private-enterprise economy to take actions or institute policies which might be against their own short-run self-interest, but the policies banks were asked to adopt and those which they should be supporting are, in the long run, in the best interests of both the economy and the banks. Our banking industry must move the focus of its attention from the short-range profit motive to the combined long-range profit and public-interest motive. A failure to do this will only mean that additional efforts must be undertaken by national regulatory agencies to compel the industry to abide by those short-run policies which lead to the long-run best interests of the economy.

It is easy to stand on the sidelines and be critical of an industry, but I assure you that my intention is not destructive criticism but constructive suggestion so that our economic and financial system will continue to provide the environment and impetus for the long-range, stable growth we all seek.

One other policy of the banking industry which I think provides a lesson for us in the coming years is that reflected in some of the problems evident in the current headlines on the SEC investigation. For many years, the Federal Reserve Bank of Dallas has been raising a warning flag about the abuses of bank-stock loans and self-dealing within the banking fraternity. We have publicized the bank-stock loan problems to a considerable extent, and I will not recite all of the details which bring me to a

position of opposition to many of the practices in this field.

It will be sufficient to say that the bank-stock loan procedures, where they encompass heavy compensating balances, create a situation in which a bank's funds are being used to support a loan to one group of stockholders. Moreover, in many cases, such funds are available only by withdrawing the bank from membership in the Federal Reserve System and using the reserve requirement as the compensating balance. In addition, there are inequities in rates charged, credit leverage created, and long-term control relationships established which do not lend themselves to the arm's-length dealing appropriate to banking.

Some of this same type of problem is evident in the internal dealings of directors and officers in developing loans from their own banks to other industries or corporations in which the officers or directors have substantial personal financial interest. One wonders how it is possible for some customers of a bank to borrow the full cost of purchasing stocks with no other collateral than the stocks themselves, especially when the banker has a personal interest in the corporation whose stock is being financed. Responsible bankers should not place themselves in such an obviously compromising position, at least from a public-appearance standpoint.

Perhaps the most serious long-run aspect of this affair is the damage to public confidence in the banking industry. The handling of these loans does not reflect usual practice in handling securities loans, with perhaps the exception of those secured by bank stocks. Unfortunately, this bank-stock loan procedure casts a sufficient shadow of doubt to reflect on the entire industry.

It seems absolutely necessary for all banks to demonstrate their

utmost purity and arm's-length dealing by restricting the amount of loans granted directors or officers or institutions in which they have significant financial or management positions. Moreover, loans for security investment should be limited to securities in firms not represented by interests of directors or officers. These problems have been evident for many years, but I submit that they are growing. Since the banking industry is apparently unable to police itself, there may be need for regulatory or legislative control over the coming years.

Let me say that my resentment and anguish over these matters arose because, on the whole, we have such a fine group of bankers and banking institutions. It is deplorable that a few can have such a damaging effect upon public confidence in the entire industry.

After spending so much time on what I hope were constructive suggestions regarding the banking industry, I intend to spend some time in self-analysis with regard to the lessons of 1970 for monetary policy.

In my opinion, there have been several important lapses in Federal Reserve monetary policy control over the past two years. First and foremost was the adoption of gradualism as a policy approach in early 1969, with the resulting extension of time within which corrective action could have been expected from monetary policies of restraint. By such a policy of gradualism, credit restraint was insufficient and banks and others took evasive measures which minimized the impact of the restraining policies. Similarly, this extended period of restraint, with its high levels of interest rates and almost imperceptible dampening of the rate of inflation, allowed cumulative price increases which encouraged labor to demand compensation for the erosion of its real purchasing power. This, too, has

accentuated the problem of bringing the nation out of its inflationary cycle and has resulted in a situation in which unemployment has risen rapidly while price increases continue. Such changes are forming the impetus to cost-push inflation, which may prove to be a very difficult problem to minimize over the coming months.

A second problem or lesson from 1970 for the Federal Reserve and one which also carried over from the previous year has been the System's inadequate response to changing conditions. Here I would cite our procrastination in placing in effect regulatory restrictions on Eurodollar borrowings and commercial paper issues by commercial banks. Both actions were ultimately taken, but in our slowness the volume of these borrowings rose to record heights. Thus, we are now faced with a difficult problem in our balance of payments with regard to the return flow of Eurodollars.

In my opinion, we have also provided inadequate controls over our international balance of payments, for our deficits in this area have continued and for 1970 were very large. It is not within the province of the Federal Reserve to take the policy actions necessary to correct our balance-of-payments deficit, but I believe we suffer some of the blame for continuing this unsatisfactory situation, in part by our ingenuity in creating short-run regulatory correctives which may have deferred or taken off the pressure for long-range answers.

Finally, particularly in 1970, it is my opinion that the Federal Reserve has both practically and philosophically adopted a position of overreliance on money supply as the prime target for monetary policy. It has been abundantly clear over the past several months that Federal Reserve actions were not able to ensure a precise rate of money supply growth and hold to that rate despite the internal

changes in the economy. It has also been abundantly clear that our present state of research, even with the aid of very high-powered computer equipment, is inadequate to provide accurate predictions or forecasts of the rate of money supply growth. This is especially true when one looks at the week-to-week and month-to-month figures.

My unhappiness with this concentration upon money supply as a guide to monetary policy stems both from our inability to predict and achieve the targets set out by the System and from the impression which this may provide both the marketplace and the national economy of an overprecision in monetary policy control. Stated another way, we are giving an impression of fine tuning in the economy which the nation's monetary authorities cannot uphold.

In a sense, we have brought on ourselves a public reliance upon monetary policy as the corrective source for all of the nation's ills. We in the Federal Reserve recognize that monetary policy by itself cannot do the whole job of economic stabilization, much less provide the correctives in economic and financial structure which may be necessary before our economy returns to a stable growth pattern. And yet, we have permitted an impression of fine tuning to permeate the financial market, and I believe we have aided and abetted this impression by the adoption of money supply as a prime target for monetary policy.

Let me leave no mistaken impression, however. I believe we

should continue to pay close attention to the money supply and continue our research into the linkages of monetary policy actions to changes in money supply and to changes in national economic conditions. We should also study carefully the lags in timing between a policy action and changes in the short-run and intermediate objectives, as well as the ultimate effect on the real economy. These lags apparently are highly variable. Some of the impact of monetary policy actions appears to be almost immediate, but another part seems to impact only after six months or a year. Some academic consultants and observers seem to be saying that there is a uniformity of lag and a precision to the impact, which I believe is incorrect.

A number of times in 1970, at least in the short run, we had to abandon our money supply targets because of developments in the economy, the prime case being the bankruptcy of Penn Central. Here, such a massive threat to the nation's financial markets required Federal Reserve action to reassure the markets and forestall a financial crisis. Such actions were taken and taken promptly, but for a period of time this meant that the money supply target had to be pushed into the background.

In my opinion, the money market variables, such as net reserves, borrowings, and interest rates, deserve a continuing place in both the targets and the objectives of Federal Reserve policy. However, I would say the same thing

about the money market aggregates, including the money supply, bank credit, and bank reserves. I strongly resist the idea that a single guideline or objective can be adequate to measure the complex requirements of our nation's economy.

I could go on, probably beyond your endurance, in reviewing the lessons which I believe should have been learned by Congress and the Administration, especially in the handling of fiscal policies, but suffice it to say that we still have an overconcentration upon spending and an underconcentration upon providing the needed revenues. Our Government leaders could well have learned the lesson of overreaction when in 1969 and 1970, defense spending was curtailed simultaneously with economic stabilization efforts. Similarly, one could hope that our leaders recognize their slow reaction to an apparent need for wage-price restraint. Despite repeated calls by many responsible economists and business leaders for some form of moral suasion or incomes policy, no efforts appeared until late in 1970 after rising wage settlements had gained full momentum.

Our lessons from 1970 may not provide precise guides for solutions in the future, and the problems which they reflect will probably plague us into the current year. But we should learn from our experiences, for the old adage is still abundantly clear that "those who refuse to learn from history are doomed to repeat it."

New par banks

The Hodge Bank and Trust Company, Hodge, Louisiana, an insured nonmember bank located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, was added to the Par List on January 4, 1971. The officers are: L. C. Ewing, Chairman of the Board; Robert L. Cone, President; Leon H. Whitten, Vice President; and Terry O. Ewing, Assistant Cashier.

The Town and Country Bank, Houston, Texas, an insured nonmember bank located in the territory served by the Houston Branch of the Federal Reserve Bank of Dallas, was added to the Par List on its opening date, January 4, 1971. The officers are: Dan M. Moody, Chairman of the Board; W. C. Frels, President; and William A. McGinty, Executive Vice President.

The American Bank, Conroe, Texas, an insured nonmember bank located in the territory served by the Houston Branch of the Federal Reserve Bank of Dallas, was added to the Par List on its opening date, January 7, 1971. The officers are: Clayton G. Hester, President; Roy A. Pederson, Vice President (Inactive); and William M. Sherman, Cashier.

The Arlington Bank of Commerce, Arlington, Texas, an insured nonmember bank located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, was added to the Par List on its opening date, January 8, 1971. The officers are: H. Richard Poynter, President; Wayne Warren, Executive Vice President; and Jo Bess Russell, Cashier.

The Community State Bank, Boling, Texas, an insured nonmember bank located in the territory served by the Houston Branch of the Federal Reserve Bank of Dallas, was added to the Par List on its opening date, January 20, 1971. The officers are: Sherman D. Tryon, President; Jimmie Marquart, Cashier; and Miss Madeline Urbanovsky, Assistant Cashier.

The Security State Bank of Portland, Portland, Texas, an insured nonmember bank located in the territory served by the San Antonio Branch of the Federal Reserve Bank of Dallas, was added to the Par List on its opening date, January 20, 1971. The officers are: L. M. Fischer, Chairman of the Board (Inactive); Edgar M. Linkenhoger, President (Inactive); W. E. McKenzie, Executive Vice President; Jim T. McKenzie, Vice President; and W. L. Powell, Cashier.

The Permian Bank and Trust, Odessa, Texas, an insured nonmember bank located in the territory served by the El Paso Branch of the Federal Reserve Bank of Dallas, was added to the Par List on its opening date, January 29, 1971. The officers are: Jesse I. Combs, President; David I. Mountain, Vice President; and Donald O. Starr, Cashier.

New member bank

The Promenade National Bank, Richardson, Texas, a newly organized institution located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, opened for business January 20, 1971, as a member of the Federal Reserve System. The new member bank has capital of \$500,000, surplus of \$300,000, and undivided profits of \$200,000. The officers are: Rodney D. Hargrave, President; David L. Stone, Vice President; and Houston J. Sides, Vice President and Cashier.



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Statistical Supplement to the Business Review

The seasonally adjusted Texas industrial production index in December continued the essentially flat movement that began in September. At 179.2 percent of its 1957-59 base, the index was off 0.7 percent from November and up only 1.2 percent from December 1969.

The month-to-month decline was due primarily to a slowing in the petroleum industry. Crude oil production was off 2.3 percent from the previous month, and petroleum refining was off 2.7 percent. Utilities were unchanged. Manufacturing declined slightly. All of this decline was in nondurable goods, which reflected the drop in petroleum refining. Output of durables was unchanged.

The small increase in output over December 1969 resulted essentially from a 25-percent gain in crude oil production. Much of this gain was offset, however, by a decline of more than 12 percent in the production of durable goods, especially transportation equipment and electrical machinery.

Total nonagricultural wage and salary employment in the five southwestern states advanced moderately in December but reached a level only slightly higher than in December 1969. Manufacturing employment declined again, having fallen in every month of 1970 except June. This decline was more than offset, however, by an increase in employment outside manufacturing. In this sector, trade showed considerable weakness, reflecting slower Christmas selling, but construction was essentially strong.

Compared with December 1969, employment was up only 0.5 percent. The lack of strength was attributed mostly to manufacturing

employment, which dropped more than 6.0 percent. But with a gain of only 2.0 percent, nonmanufacturing employment was also up much less than in other recent years.

Registrations of new passenger automobiles in Dallas, Fort Worth, Houston, and San Antonio totaled 9 percent higher in December than in November. Changes ranged from an increase of 22 percent in Houston to a decrease of 10 percent in Dallas. Overall, registrations in these four metropolitan areas were 27 percent lower than in December 1969. Registrations for the year were 13 percent lower than in 1969.

Department store sales in the District were 9 percent higher in the four weeks ended January 30 than in the corresponding period a year before. Sales for 1970 were 3 percent higher than in 1969.

The Texas oil allowable was reduced again in February. Although cut for the third consecutive month, the allowable still remains high. In setting the new rate at 82.1 percent of maximum efficient production, the Texas Railroad Commission lowered the allowable only one percentage point from the rate for January. This reduction is expected to slow production in Texas only about 10,000 barrels a day. Daily production in January ran an estimated 3,421,000 barrels. The allowable also remained high in Louisiana. The regulatory agency in that state left the rate unchanged for February at 75 percent of maximum efficient production.

Allowables have been high in petroleum-producing states of the Eleventh District since mid-1970. They were raised to help meet

increased need for domestic crude after a worldwide shortage of tanker space developed early last summer.

Credit at weekly reporting banks in the Eleventh District declined more than usual in the five-week period ended January 27. Reductions in loans and bank holdings of U.S. Government securities more than offset a substantial increase in holdings of other securities. The decline in total credit occurred in spite of a contraseasonal rise in deposits. Banks used a large part of the deposit inflow to reduce their net borrowing in the Federal funds market.

Loans declined more than in the corresponding periods of most recent years. This reduction followed a sharp buildup in loans in late 1970 and may reflect partial repayment of these earlier borrowings. Most of the decline in recent weeks has been in loans to nonbank financial institutions and to businesses, both of which increased substantially in the second part of 1970. Most other types of loans also declined or increased only nominally.

With slack loan demand and ample inflows of funds, banks added further to their holdings of securities. All these additions were municipal issues, probably reflecting the large volume of such issues coming to market and the comparatively attractive yields available on them.

Total bank deposits expanded substantially, largely in response to renewed inflows of large negotiable CD's. Demand deposits declined slightly, but less so than in comparable periods of recent years. Banks also increased their borrowings from nondeposit sources, particularly in the Eurodollar market.

CONDITION STATISTICS OF WEEKLY REPORTING COMMERCIAL BANKS

Eleventh Federal Reserve District

(Thousand dollars)

ASSETS	Jan. 27, 1971	Dec. 23, 1970	Jan. 28, 1970
Federal funds sold and securities purchased under agreements to resell.....	716,130	623,362	346,630
Other loans and discounts, gross.....	6,586,896	6,680,336	6,035,373
Commercial and industrial loans.....	3,171,189	3,202,424	3,029,871
Agricultural loans, excluding CCC certificates of interest.....	115,689	108,809	109,915
Loans to brokers and dealers for purchasing or carrying:			
U.S. Government securities.....	509	507	555
Other securities.....	52,313	56,986	41,316
Other loans for purchasing or carrying:			
U.S. Government securities.....	1,606	1,270	861
Other securities.....	433,811	420,441	397,505
Loans to nonbank financial institutions:			
Sales finance, personal finance, factors, and other business credit companies.....	182,578	291,977	130,720
Other.....	447,980	400,149	339,766
Real estate loans.....	652,044	663,877	639,015
Loans to domestic commercial banks.....	16,448	16,485	11,163
Loans to foreign banks.....	9,572	8,338	11,179
Consumer instalment loans.....	736,322	740,054	727,827
Loans to foreign governments, official institutions, central banks, and international institutions.....	0	0	750
Other loans.....	766,835	769,019	594,930
Total investments.....	2,929,039	2,886,842	2,611,202
Total U.S. Government securities.....	989,159	1,004,334	983,003
Treasury bills.....	125,963	125,372	105,762
Treasury certificates of indebtedness.....	0	0	0
Treasury notes and U.S. Government bonds maturing:			
Within 1 year.....	220,311	220,336	165,670
1 year to 5 years.....	531,757	529,976	595,758
After 5 years.....	111,128	128,650	115,813
Obligations of states and political subdivisions:			
Tax warrants and short-term notes and bills.....	69,995	38,957	17,175
All other.....	1,647,225	1,599,913	1,489,596
Other bonds, corporate stocks, and securities:			
Certificates representing participations in:			
Federal agency loans.....	86,076	109,783	53,379
All other (including corporate stocks).....	136,584	133,855	68,049
Cash items in process of collection.....	1,238,025	1,313,401	1,086,636
Reserves with Federal Reserve Bank.....	876,386	1,115,883	771,332
Currency and coin.....	92,712	90,530	89,626
Balances with banks in the United States.....	532,240	513,584	449,930
Balances with banks in foreign countries.....	9,682	8,336	9,786
Other assets (including investments in subsidiaries not consolidated).....	467,803	466,477	504,992
TOTAL ASSETS.....	13,448,913	13,698,751	11,905,507

LIABILITIES	Jan. 27, 1971	Dec. 23, 1970	Jan. 28, 1970
Total deposits.....	10,777,099	10,705,287	8,864,611
Total demand deposits.....	6,228,547	6,252,558	5,620,150
Individuals, partnerships, and corporations.....	4,171,008	4,240,778	3,977,637
States and political subdivisions.....	290,716	236,484	282,017
U.S. Government.....	204,393	253,411	139,991
Banks in the United States.....	1,419,977	1,393,350	1,112,593
Foreign:			
Governments, official institutions, central banks, and international institutions.....	3,871	3,426	2,933
Commercial banks.....	26,003	27,121	25,252
Certified and officers' checks, etc.....	112,579	97,988	79,727
Total time and savings deposits.....	4,548,552	4,452,729	3,244,461
Individuals, partnerships, and corporations:			
Savings deposits.....	948,906	943,090	921,265
Other time deposits.....	2,509,390	2,504,167	1,604,884
States and political subdivisions.....	966,198	913,850	688,831
U.S. Government (including postal savings).....	18,481	26,755	2,104
Banks in the United States.....	86,692	46,482	18,527
Foreign:			
Governments, official institutions, central banks, and international institutions.....	17,785	17,285	7,500
Commercial banks.....	1,100	1,100	1,350
Federal funds purchased and securities sold under agreements to repurchase.....	1,012,322	1,353,620	1,248,762
Other liabilities for borrowed money.....	73,802	84,775	333,033
Other liabilities.....	397,006	380,179	335,136
Reserves on loans.....	139,403	128,822	136,503
Reserves on securities.....	20,418	16,750	13,255
Total capital accounts.....	1,028,863	1,029,318	974,207
TOTAL LIABILITIES, RESERVES, AND CAPITAL ACCOUNTS.....	13,448,913	13,698,751	11,905,507

CONDITION STATISTICS OF ALL MEMBER BANKS

Eleventh Federal Reserve District

(Million dollars)

Item	Dec. 30, 1970	Nov. 25, 1970	Dec. 31, 1969
ASSETS			
Loans and discounts, gross.....	13,211	12,528	11,942
U.S. Government obligations.....	2,268	2,186	2,179
Other securities.....	3,742	3,648	3,146
Reserves with Federal Reserve Bank.....	1,400	1,499	1,222
Cash in vault.....	296	257	268
Balances with banks in the United States.....	1,457	1,342	1,619
Balances with banks in foreign countries ^e	10	11	12
Cash items in process of collection.....	1,405	1,341	1,652
Other assets ^e	956	940	822
TOTAL ASSETS^e.....	24,745	23,752	22,862
LIABILITIES AND CAPITAL ACCOUNTS			
Demand deposits of banks.....	1,861	1,720	1,919
Other demand deposits.....	9,792	9,162	9,926
Time deposits.....	8,895	8,730	7,246
Total deposits.....	20,548	19,612	19,091
Borrowings.....	1,229	1,189	1,159
Other liabilities ^e	1,126	1,120	901
Total capital accounts ^e	1,842	1,831	1,711
TOTAL LIABILITIES AND CAPITAL ACCOUNTS^e.....	24,745	23,752	22,862

^e — Estimated

RESERVE POSITIONS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. Thousand dollars)

Item	5 weeks ended Jan. 6, 1971	4 weeks ended Dec. 2, 1970	5 weeks ended Jan. 7, 1970
RESERVE CITY BANKS			
Total reserves held.....	806,799	775,369	749,724
With Federal Reserve Bank.....	747,167	720,348	692,994
Currency and coin.....	59,632	55,021	56,730
Required reserves.....	825,028	785,916	764,358
Excess reserves.....	18,229	10,547	14,634
Borrowings.....	0	0	6,437
Free reserves.....	18,229	10,547	21,071
COUNTRY BANKS			
Total reserves held.....	825,823	803,230	786,188
With Federal Reserve Bank.....	633,558	616,275	599,549
Currency and coin.....	192,265	186,955	186,639
Required reserves.....	815,231	789,156	769,379
Excess reserves.....	10,592	14,074	16,809
Borrowings.....	0	912	19,585
Free reserves.....	10,592	13,162	2,776
ALL MEMBER BANKS			
Total reserves held.....	1,632,622	1,578,599	1,535,912
With Federal Reserve Bank.....	1,380,725	1,336,623	1,292,543
Currency and coin.....	251,897	241,976	243,369
Required reserves.....	1,640,259	1,575,072	1,533,737
Excess reserves.....	7,637	3,527	2,175
Borrowings.....	0	912	26,022
Free reserves.....	7,637	2,615	23,847

CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(Thousand dollars)

Item	Jan. 27, 1971	Dec. 23, 1970	Jan. 28, 1970
Total gold certificate reserves.....	380,924	687,979	433,102
Discounts for member banks.....	300	0	35,250
Other discounts and advances.....	0	0	0
U.S. Government securities.....	2,802,860	2,791,830	2,390,301
Total earning assets.....	2,803,160	2,791,830	2,425,551
Member bank reserve deposits.....	1,460,824	1,668,608	1,309,025
Federal Reserve notes in actual circulation.....	1,902,027	1,945,227	1,695,814

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

Four Southwestern States

(Dollar amounts in thousands, seasonally adjusted)

Standard metropolitan statistical area	DEBITS TO DEMAND DEPOSIT ACCOUNTS ¹				DEMAND DEPOSITS ¹			
	December 1970 (Annual-rate basis)	Percent change			December 31, 1970	Annual rate of turnover		
		December 1970 from November 1970	December 1969	12 months, 1970 from 1969		December 1970	November 1970	December 1969
ARIZONA: Tucson.....	\$ 7,040,796	-6	17	21	\$ 232,199	30.5	32.2	26.0
LOUISIANA: Monroe.....	2,980,248	13	13	9	87,718	34.5	31.0	31.7
Shreveport.....	9,445,680	14	2	14	249,207	37.0	32.8	36.6
NEW MEXICO: Roswell ²	928,296	13	-2	4	40,308	23.5	21.1	24.1
TEXAS: Abilene.....	2,153,160	4	9	6	107,471	20.2	19.8	20.6
Amarillo.....	5,692,764	-6	-4	9	161,123	35.3	37.7	36.2
Austin.....	9,308,136	4	12	1	337,650	28.8	29.9	29.9
Beaumont-Port Arthur-Orange.....	6,546,732	6	1	1	248,190	26.9	25.9	27.0
Brownsville-Harlingen-San Benito.....	2,071,272	-9	10	13	77,748	26.4	28.6	26.3
Corpus Christi.....	6,671,256	-1	28	14	278,903	23.3	23.3	24.8
Corsicana ²	451,908	5	10	8	31,459	14.4	14.3	14.3
Dallas.....	123,016,932	2	1	9	2,192,379	55.5	55.2	55.7
El Paso.....	7,474,584	1	4	9	251,333	30.4	30.6	30.0
Fort Worth.....	23,451,204	-1	11	10	670,464	35.5	36.7	33.8
Galveston-Texas City.....	2,774,256	2	7	11	113,335	25.1	24.9	24.5
Houston.....	104,236,548	1	7	10	2,433,323	41.7	40.8	39.5
Laredo.....	1,058,424	12	14	12	41,617	25.0	22.5	23.3
Lubbock.....	4,392,816	-3	6	4	168,446	25.4	26.0	25.9
McAllen-Pharr-Edinburg.....	1,756,704	1	8	6	100,529	17.3	17.2	18.4
Midland.....	2,219,916	14	8	2	132,590	16.7	14.7	15.5
Odessa.....	1,543,716	0	-10	3	88,859	17.4	18.2	24.4
San Angelo.....	1,426,440	11	13	8	74,951	19.9	19.2	17.7
San Antonio.....	18,307,548	-5	10	12	657,017	28.1	30.4	27.3
Sherman-Denison.....	1,208,688	9	11	8	62,982	18.6	17.0	17.9
Texarkana (Texas-Arkansas).....	1,415,628	4	-8	-7	72,890	19.3	18.8	21.8
Tyler.....	2,307,456	-1	4	4	101,852	22.8	23.8	23.3
Waco.....	2,897,700	-8	2	9	126,873	23.4	26.6	24.2
Wichita Falls.....	2,312,520	5	1	0	114,887	20.0	18.9	20.4
Total—28 centers.....	\$355,091,328	1	5	9	\$9,256,303	38.1	38.1	37.7

¹ Deposits of individuals, partnerships, and corporations and of states and political subdivisions

² County basis

VALUE OF CONSTRUCTION CONTRACTS

(Million dollars)

Area and type	December 1970	November 1970	October 1970	January-December	
	1970	1970	1970	1970	1969
FIVE SOUTHWESTERN STATES ¹	553	553	597	7,709	6,795r
Residential building.....	290	227	270	3,074	2,793r
Nonresidential building.....	173	199	201	2,542	2,290
Nonbuilding construction.....	90	128	127	2,093	1,711
UNITED STATES.....	4,974	5,145	5,453	67,097	67,447r
Residential building.....	2,045	1,947	2,302	24,428	25,261r
Nonresidential building.....	1,693	1,701	1,863	24,180	25,641r
Nonbuilding construction.....	1,235	1,497	1,289	18,489	16,545r

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.

BUILDING PERMITS

Area	VALUATION (Dollar amounts in thousands)						
	NUMBER		Percent change				
	Dec. 1970	12 mos. 1970	Dec. 1970	12 mos. 1970	Nov. 1970	Dec. 1969	12 months, 1970 from 1969
ARIZONA							
Tucson.....	616	6,851	\$ 9,408	\$ 64,606	66	119	4
LOUISIANA							
Monroe-West							
Monroe.....	74	849	5,958	19,464	640	1,134	56
Shreveport.....	396	5,580	3,528	33,194	19	-44	-24
TEXAS							
Abilene.....	32	475	482	8,308	41	201	-28
Amarillo.....	98	3,735	4,759	32,904	385	125	-23
Austin.....	438	4,914	18,668	134,229	130	98	-11
Beaumont.....	121	1,746	564	9,320	-12	-38	-15
Brownsville.....	72	873	1,876	7,504	1,194	636	-6
Corpus Christi.....	742	5,627	2,530	29,287	-32	29	25
Dallas.....	1,345	21,332	29,094	346,584	15	30	13
Denison.....	23	441	99	3,497	-61	30	26
El Paso.....	509	5,533	10,186	97,016	164	178	13
Fort Worth.....	336	4,548	3,777	82,293	-9	-35	8
Galveston.....	46	777	596	6,991	217	0	-62
Houston.....	3,002	34,373	45,207	480,739	-16	55	12
Laredo.....	34	542	214	6,378	185	1	50
Lubbock.....	113	2,320	4,232	53,187	13	139	61
Midland.....	47	617	959	5,076	275	749	-15
Odessa.....	48	833	966	9,884	148	220	29
Port Arthur.....	39	888	116	7,429	-44	-31	-10
San Angelo.....	24	608	1,182	10,769	809	141	65
San Antonio.....	1,035	15,171	9,462	103,175	16	23	21
Sherman.....	45	796	731	14,086	0	173	-22
Texarkana.....	37	358	163	6,327	-52	16	-4
Waco.....	134	2,345	609	33,140	-70	-11	87
Wichita Falls.....	84	853	801	12,605	-17	111	-27
Total—26 cities.....	9,490	122,985	\$156,167	\$1,617,992	22	72	8

GROSS DEMAND AND TIME DEPOSITS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. Million dollars)

Date	GROSS DEMAND DEPOSITS			TIME DEPOSITS		
	Total	Reserve city banks	Country banks	Total	Reserve city banks	Country banks
1968: December..	10,682	5,007	5,675	7,598	3,185	4,413
1969: December..	10,692	4,947	5,745	7,203	2,628	4,575
1970: July.....	10,412	4,782	5,630	7,511	2,722	4,789
August.....	10,530	4,816	5,714	7,783	2,926	4,857
September.....	10,658	4,885	5,773	8,088	3,162	4,926
October.....	10,684	4,860	5,824	8,317	3,305	5,012
November.....	10,843	4,899	5,944	8,622	3,476	5,146
December.....	11,271	5,161	6,110	8,825	3,554	5,271

NONAGRICULTURAL EMPLOYMENT

Five Southwestern States¹

Type of employment	Number of persons			Percent change Dec. 1970 from	
	December 1970p	November 1970	December 1969r	Nov. 1970	Dec. 1969
Total nonagricultural					
wage and salary workers..	6,426,800	6,390,600	6,396,300	0.6%	0.5%
Manufacturing.....	1,117,500	1,123,800	1,191,600	-.6	-6.2
Nonmanufacturing.....	5,309,300	5,266,800	5,204,700	.8	2.0
Mining.....	229,200	228,500	232,000	.3	-1.2
Construction.....	397,000	402,500	410,000	-1.4	-3.2
Transportation and public utilities.....	469,900	469,400	460,100	.1	2.1
Trade.....	1,550,600	1,509,500	1,516,600	2.7	2.2
Finance.....	325,100	324,800	315,200	.1	3.1
Service.....	1,037,300	1,035,300	1,003,700	.2	3.3
Government.....	1,300,200	1,296,800	1,267,100	.3%	2.6%

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

p — Preliminary

r — Revised

SOURCE: State employment agencies

INDUSTRIAL PRODUCTION

(Seasonally adjusted indexes, 1957-59 = 100)

Area and type of index	December 1970p	November 1970	October 1970	December 1969
TEXAS				
Total industrial production.....	179.2	180.5	179.3r	177.1
Manufacturing.....	195.8	196.6	194.3r	207.3
Durable.....	198.7	198.7	200.7	227.8r
Non-durable.....	193.9	195.1	190.0r	193.7
Mining.....	139.7	142.2	142.6r	119.0
Utilities.....	265.4	265.4	265.3r	252.8
UNITED STATES				
Total industrial production.....	163.9	161.6	162.3r	171.1
Manufacturing.....	161.6	158.8	159.4r	171.3r
Durable.....	156.2	151.7	153.5	171.1
Non-durable.....	168.2	167.7	166.6r	171.5r
Mining.....	139.3	140.0	139.9	134.4r
Utilities.....	240.0	239.5	244.8r	227.9

p — Preliminary

r — Revised

SOURCES: Board of Governors of the Federal Reserve System
Federal Reserve Bank of Dallas

DAILY AVERAGE PRODUCTION OF CRUDE OIL

(Thousand barrels)

Area				Percent change from	
	December 1970	November 1970	December 1969r	November 1970	December 1969
FOUR SOUTHWESTERN					
STATES.....	7,265.5	7,285.9	6,717.3	-0.3%	8.2%
Louisiana.....	2,758.0	2,756.0	2,422.5	.1	13.8
New Mexico.....	339.0	343.5	358.3	-1.3	-5.4
Oklahoma.....	610.5	604.4	600.0	1.0	1.8
Texas.....	3,558.0	3,582.0	3,336.5	-7	6.6
Gulf Coast.....	733.6	728.6	673.8	.7	8.9
West Texas.....	1,685.8	1,720.8	1,586.3	-2.0	6.3
East Texas (proper).....	235.2	228.8	182.1	2.8	29.2
Panhandle.....	79.1	80.0	80.7	-1.1	-2.0
Rest of state.....	824.3	823.8	813.6	.1	1.3
UNITED STATES.....	10,008.3	10,062.0	9,508.2	-5.5%	5.3%

r — Revised

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

WINTER WHEAT

Five Southwestern States

Area	ACREAGE SEEDED (Thousand acres)			PRODUCTION (Thousand bushels)		
	Crop of 1971	Crop of 1970	Crop of 1969	Crop of 1971 ¹	Crop of 1970	Crop of 1969
Arizona.....	173	166	81	11,418	10,350	4,526
Louisiana.....	70	78	82	980	957	874
New Mexico.....	312	297	288	5,304	5,520	4,293
Oklahoma.....	4,875	4,875	5,299	92,625	98,202	118,275
Texas.....	3,512	3,547	4,124	45,656	54,408	68,856
Total.....	8,942	8,963	9,874	155,983	169,437	196,824

¹ Indicated December 1, 1970

SOURCE: U.S. Department of Agriculture

ANNUAL BANK DEBITS AND ANNUAL RATE OF TURNOVER OF DEMAND DEPOSITS

(Dollar amounts in thousands)

Standard metropolitan statistical area	Debits to demand deposit accounts ¹			Demand deposits ¹	
	1970	1969	Percent change	1970	1969
ARIZONA					
Tucson.....	\$ 6,533,078	\$ 5,449,339	20%	28.0%	24.9%
LOUISIANA					
Monroe.....	2,754,087	2,539,346	8	31.9	29.3
Shreveport.....	9,225,961	8,155,265	13	37.9	33.7
NEW MEXICO					
Roswell.....	899,773	867,813	4	23.7	23.8
TEXAS					
Abilene.....	2,101,203	1,995,194	5	20.8	20.0
Amarillo.....	5,855,156	5,394,756	9	36.3	34.7
Austin.....	8,814,316	8,798,416	0	28.5	31.3
Beaumont-Port Arthur-Orange.....	6,153,732	6,115,356	1	25.7	25.7
Brownsville-Harlingen-San Benito.....	1,817,627	1,609,944	13	24.3	22.6
Corpus Christi.....	5,428,013	4,779,765	14	23.4	23.1
Corsicana.....	444,731	413,982	7	14.4	13.7
Dallas.....	121,094,712	111,721,182	8	55.8	51.4
El Paso.....	7,172,600	6,582,438	9	30.4	29.1
Fort Worth.....	22,432,699	20,382,808	10	34.5	32.8
Galveston-Texas City.....	2,830,580	2,567,365	10	25.4	24.2
Houston.....	100,885,209	91,791,897	10	40.6	37.6
Laredo.....	933,777	833,366	12	23.5	21.5
Lubbock.....	4,453,076	4,265,858	4	27.0	27.3
McAllen-Pharr-Edinburg.....	1,639,544	1,557,683	5	16.6	17.2
Midland.....	1,978,387	1,947,546	2	14.8	14.6
Odessa.....	1,609,977	1,570,617	3	18.9	21.2
San Angelo.....	1,246,123	1,162,398	7	18.1	17.3
San Antonio.....	17,772,815	15,872,168	12	27.9	26.2
Sherman-Denison.....	1,093,564	1,013,617	8	17.2	16.6
Texarkana (Texas-Arkansas).....	1,433,315	1,539,172	-7	20.2	21.8
Tyler.....	2,237,859	2,158,034	4	23.7	22.9
Waco.....	3,025,356	2,780,553	9	25.6	24.0
Wichita Falls.....	2,261,369	2,276,781	-1	19.5	19.5
Total—28 centers.....	\$344,128,639	\$316,142,659	9%	37.8%	36.0%

¹ Unadjusted deposits of individuals, partnerships, and corporations and of states and political subdivisions
² County basis