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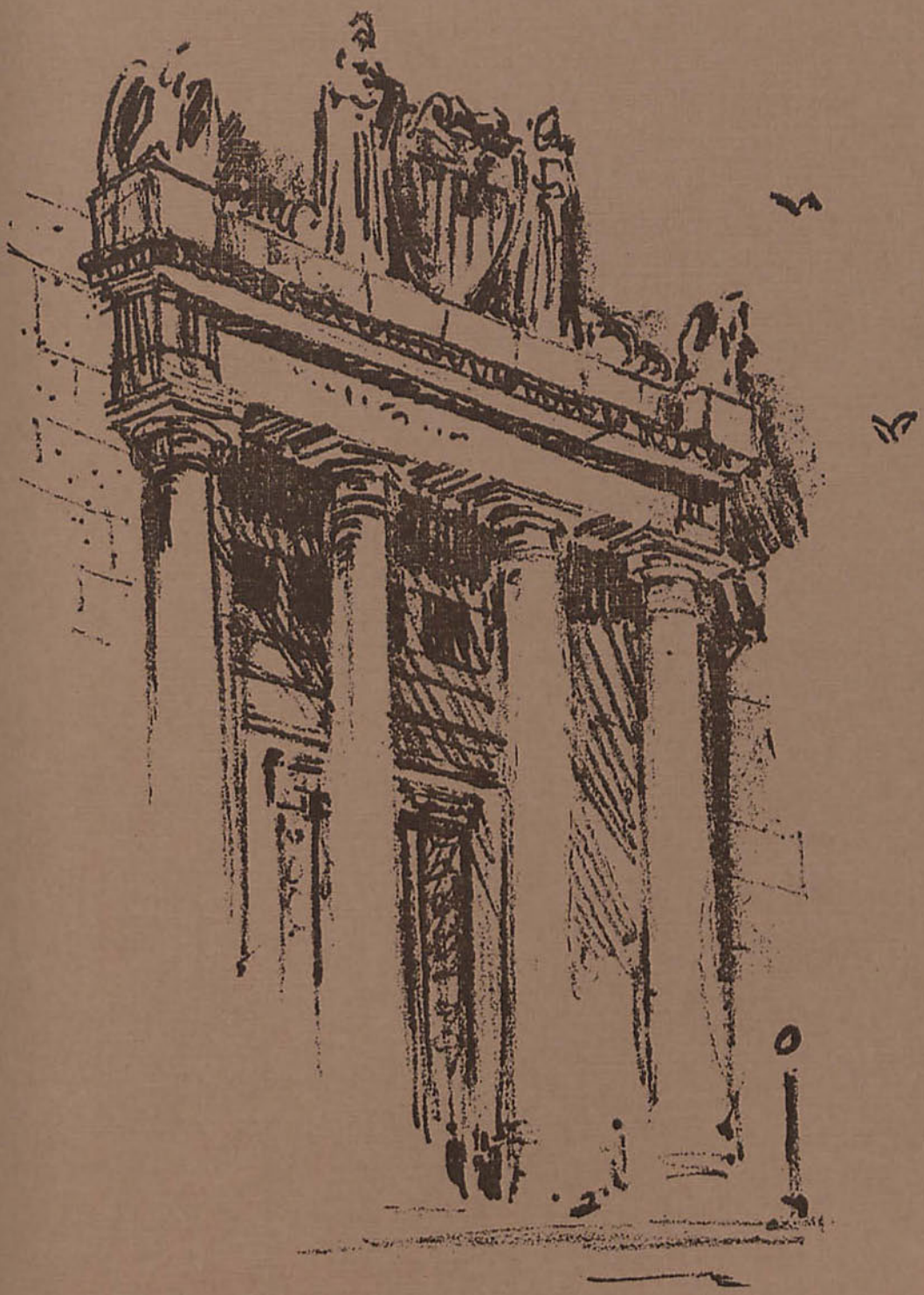

The Economics Of Instability

–An Address by Philip E. Coldwell

October 1971

The Economy That Went Astray–

The Economics Of Instability

An Address by

Philip E. Coldwell
President
Federal Reserve Bank of Dallas

to the

San Antonio Rotary Club

September 15, 1971

A popular song of my generation had lyrics which included the phrase "bewitched, bothered, and bewildered." To a limited extent, we might use this as a characterization of the American economic scene. We have been bewitched or bedeviled by a whole series of negative economic news, and we have been bothered and bewildered by the international monetary crisis and by long-range considerations regarding the President's new program.

Perhaps the most frequent question is "How did we get into this mess and what went wrong to turn our economy from its posture of dynamic growth into the current pattern of stagnation, high inflation, high unemployment, and a weakened currency?" In the complex industrial economy of the United States, the answer is difficult and in many ways highly uncertain, but I shall attempt my own explanation. You, of course, will recognize that I speak only for myself, not the Federal Reserve Bank of Dallas, the Federal Reserve System, or any of my associates. What is presented is my interpretation of the economic and financial developments, policies, roadblocks, and alluring primrose paths we have followed over the postwar period. In a nutshell, my analysis shows that the prime factors causing our present difficulties were a disregard of fundamental economic principles, a failure to act decisively and promptly, and the growing structural and social changes which have inhibited normal market processes, economic stabilization efforts, and responses to wage, price, and competitive factors.

I suspect that much of what I have to say on the developing problems of our American economy will strike a familiar chord, but perhaps the context and some of the interpretations may be different from those presented elsewhere. The causal factors of our economic and financial problems of today have roots which go back many years, but I shall attempt to limit my discussion to their recent impact. No special priorities are implied by the order in which these factors are presented.

One good starting point seems to be the familiar business cycle, for in a relatively free enterprise system there are multitudes of decisions which, if suddenly made in a concerted direction, can shift the balance of the economy and require strong offsetting actions to maintain stability. Over the past five years, we have witnessed just such a change, as Government sought to finance an underestimated war cost without compensating taxes. This cost was superimposed on an economy growing at a remarkable rate, with the not unusual result of creating heavy inflationary pressures. Businessmen began the all-too-familiar mass decision-making process of overextending capital investment, hoarding labor, and building inventories. These added fire to the brightly glowing boom and turned it into an incipient inferno of inflation.

For many years, economists have recognized the inherent instabilities of a free enterprise, freedom-of-choice economy and the problems of overstimulation by Government spending, especially

for nonconsumer production goods. It has been amply demonstrated that capital goods and inventory booms threaten the basic balance and are a source of instability largely generated by the mass reaction of business. Similarly, we recognize the sheeplike following by many corporations of the policy decisions of the leaders. In the consumer field, the expectations of the American consumer seem to ebb and flow in waves almost as if by command. This instability, too, is one recognized by many as a cost of the economic freedoms we enjoy.

One other element inherent in our system needs comment. While we talk frequently about the public interest and self-discipline requirements of our economic system, the fact remains that most of us act in very self-centered, short-range ways. If we can see an immediate advantage to our own positions, we will act; but if the gains are long-range, and especially if there are short-run disadvantages, we are likely to reject an appeal for action. Similarly, for many, only a patriotic motive of a compelling nature will shift our sights from self-interest to the nation's good. Most of the time, the nation's objectives coincide with the self-interest of individuals (especially in the long run) but, on occasion, there is a dichotomy and, especially in a timing sense, the two diverge.

If our inherent system problems were the only ones causing our present crisis, we could act with confidence that recovery in a sustainable, generally noninflationary environment could be achieved. Unfortunately, there are other matters which seem to have changed the underlying responses of the economy. Some of these changes have been the growing concentration of business, the development of conglomerates and multinational corporate concepts, and the heavy debt structures created to finance such ventures. The high degree of corporate financing expertise and the leverage employed almost assured problems if the rate of growth in the economy ever slowed. In a way, this development was a part of the excesses of speculation normally seen at boom times, but the concentration also reflected a structural shift which national stabilization policies were not adjusted to nor policy-makers equipped to handle.

Concurrent with this concentration of economic and financial power came a defense production boom which centered upon many of these same companies. Excessive expansion was stimulated to meet the defense requirements, but then the massive corporate superstructures erected had to be severely trimmed as defense contract momentum began to falter. Unfortunately, the impact of this yoyo-like change was concentrated both corporately and geographically. Moreover, it was accompanied by some very large speculative endeavors containing the seeds of their own destruction.

As industry concentrated, so did union power. And with this power, a steady diet of rising wages and costs fueled the price increase efforts of business, which further stimulated the large capital goods boom and brought faster introduction of laborsaving devices. The high cost of doing business domestically turned more business eyes on foreign fields, where labor costs were more moderate.

This chain of events was reinforced by another shift in American life which had been underway since the thirties–to increased welfare, Social Security, retirement, and fringe benefits. These and other social efforts, including the newer ones in ecology and pollution, brought business costs to a critical level and further supported business decisions to raise prices and to produce abroad for export to the U.S. market. These trends converged in the late 1960's, causing a massive increase in imports, a growing lack of competitiveness for U.S. exports, and a serious acceleration of the deterioration in our balance of payments.

An overemphasis on cyclically sensitive durable goods production, both for domestic use and for export, brought renewed instability to the U.S. economy in the past two years. The shifting consumer

preferences toward small, low-cost autos, the cutback in airline travel and too rapid obsolescence of airline equipment, the foreign competition in basic steel and in automated, microminiaturized, and solid-state consumer goods, and the growing independence of foreign nations from many American products were all facets of the cutback in U.S. production growth. Concomitantly, the wave of consumer and business sentiment turned to pessimism, and the normal advances in sales shifted to stability and even recession. The causal factors of this wavelike shift are too numerous to cover but included the disenchantments with a prolonged and costly war, a seemingly rigid Government position of further involvement, the slow progress in correcting racial injustice, and the glacial change in social priorities and progress. These–accompanied by the fears of layoff, the uncertainties of war and draft-induced career interruptions, the rising costs of living, and the unknowns of international financial crises–brought the consumer to a wait-and-see attitude, if not one of positive retrenchment. Personal savings rose to record levels as consumers, in a normal response, shifted toward liquidity.

On top of these changes, the economic recovery and boom of nearly eight years had bred its own inefficiencies and instabilities which cried for correction, cost-control moves followed the consumer restraint, and business sought new ways of doing business without additional labor inputs. The years of relatively cost-free restraints had built an overhead which could be sustained only if sales advanced in an accelerating fashion and only if credit were freely available at low cost to meet the interest burden of excessive debt positions.

Paralleling the development of social and welfare concerns has been a fundamental Government policy commitment to full employment. While the definition of full employment has varied over the postwar period, the political trends tended to deepen the commitment. In consequence, by the midsixties, the practical margin of tolerance for the oversensitized unemployment rate had been reduced to less than two points, or from 4 percent to 6 percent unemployed, despite the fact that major changes occurred in the labor force reflecting growing female and teen-age participation. Although the publicized trade-off of unemployment and inflation has not been proved in a strictly proportionate sense, there is a sufficiently practical offset that the limitation on the unemployment rate has caused a wider political tolerance of the rate of inflation. To a considerable extent, this political tolerance has been matched, if not exceeded, by a widespread, popular acceptance of rising prices, especially where unemployment is the alternative. This fundamental shift in attitude, coupled with a growing intolerance of conditions thought susceptible to governmental correction, has had important implications for the use of traditional aggregate stabilization efforts. On the other hand, public irritation at the steadily rising price level has created a growing support for direct intervention measures.

Along with the developing economic shifts, there were important changes in the financial area which also bear some measure of responsibility for the current problems. One of the significant shifts ties directly into the attitude change which brought new and enlarged responsibilities to all levels of government to correct social, service, and educational problems. At the local level, the massive problems of urbanization, crime, racial concentration and discrimination, and growing municipal services brought financial pressures leading to sharply higher levels of debt and taxes. Pressures on the Federal Government were accentuated by public demand for services not available or attainable from local or state governments. The net result of these intense pressures over the past decade was a sharply growing level of public expenditures on welfare and services and rising budget deficits. The implications of these deficits

can scarcely be overemphasized in terms of their importance to debt management and fiscal policy, money market conditions, and monetary policies.

With an effective bond interest rate ceiling of 4¼ percent, the Treasury had to finance the deficits by short and intermediate-term issues. The average maturity of the public debt shortened dramatically, and short-dated issues flooded the market. Because of their wide marketability and transferability, such issues formed an important secondary liquidity reserve from which banks could rapidly obtain funds for lending purposes. Perhaps more important, the financing of such issues often involved credit to Treasury tax and loan accounts and was ultimately supported by central bank reserve creation. The pressure of large short-term issues also had important rate effects, with rapidly rising short-term rates causing a sharp distortion in the normal yield curve. The large budget deficits also created fiscal policy problems in the attempt to raise tax revenues and minimize shortfalls against expenditures.

Perhaps the most important problem created by the large budget deficits has been the interference with monetary policy efforts toward stabilization. As already indicated, large deficits must be eventually financed by reserve creation by the central bank. This injects new supplies of high-powered reserve credits, which can then be used for bank credit expansion. At a time when the Federal Reserve was seeking credit restraint, such deficit-induced reserve injections limited opportunities to pursue a restraining monetary policy. Another element of instability has been the foreign official purchases and sales of short-dated Treasury issues. At times, these have been in such massive amounts as to interfere with the orderly conduct of open market operations.

Concurrent with these developments was a major shift in depositor attitudes at commercial banks. Leading the way had been the corporate treasurers' efforts to maximize returns from idle cash balances. This policy brought a new element of instability as funds shifted in massive quantities between domestic financial institutions, between new and older forms of debt instruments, and even between domestic and international institutions and investments. Such shifts, often on very thin margins and short notice, caused uncertainties in the availability of funds at depositary institutions and excessive rate competition, both domestically and with foreign nations. As interest rates advanced, individual depositors became interest-conscious and a large disintermediation of funds from depositary institutions developed. To take advantage of the growth of competing investments where rates were not restricted by Federal Reserve regulation, many individuals withdrew funds for direct investment.

To some extent, these corporate and individual depositor moves were offset by strongly competitive banks and their innovative efforts to obtain funds for loan extensions. Thus, there developed new nondeposit sources of funds, among which were bank issues of capital debentures, issues in the commercial paper market, and heavy sales of assets to nonbank institutions, both financial and otherwise.

An even more important new source of funds was the borrowing of Eurodollars. The Eurodollar market developed as dollars piled up abroad as a partial result of the continuous deficits in the U.S. balance of payments. As competition for Eurodollars forced higher interest rates abroad, the market pulled more and more dollars from the United States, from both corporate and individual holders. The instabilities developing from this huge unregulated financial market were matters of great concern to the United States and foreign nations. If nothing else, the U.S. deficit was strongly influenced by the ebb and flow of these borrowings abroad. For the foreign nations, the large inflows created problems in effectuating their domestic monetary policies.

Of course, the sharp growth of the Eurodollar market was only one result of our failure to correct the U.S. balance-of-payments deficits. Of equal significance in our catalog of the causes of crisis were the growing levels of official dollar holdings and their actual and potential drain on U.S. reserves. Despite recurring crises, the creation of the swap network, the interest equalization tax, the foreign credit restraint programs, the two-tier gold market, and the large financings by special Treasury issues to foreign nations, the dollar hoard continued to grow and revaluations depreciated the dollar's international standing. As pressures built up, there were recurring crises precipitated by large fund shifts into the stronger currencies. Finally, with nearly $10 billion in foreign accumulations during July and early August, pressures forced the United States to suspend convertibility from dollars to gold and float the dollar on the foreign exchange market. This action also forced attention to the need to restructure the financial mechanism for international settlements.

As I have indicated, the primary source of the developing international instability was the continuing and growing American deficits, which, in turn, partly reflected the persistence of inflation in the U.S. economy. Despite the long-term nature of the balance-of-payments problem, there has been a noticeable lack of effective action to reduce these deficits by fundamental policy shifts. The causes of the deficits have changed in emphasis but have generally included capital outflows for investment abroad, Government grants and loans, Government purchases abroad, and military support for troops stationed abroad. On several occasions, the repayment of Eurodollar borrowings and foreign sales of U.S. securities were important sources of deficits. Throughout the postwar period, trade barriers materially limited American exports.

Still other sources of instability in the past few years have been the lessening impact of monetary policy and the occasional errors or insufficiencies in policy. The latter were unfortunate but, as a long-standing problem, were relatively insignificant until 1968. A relaxation of restraint at that time has since proved to be a major error. Similarly, in early 1969, the Federal Reserve acquiesced in a national policy of "gradualism" and agreed to a moderate level of restraint in the face of the strongest inflationary pressures of the decade. This policy of gradualism permitted a continuation of inflation to the point where employee demands for compensatory wage increases became a new stimulant to price inflation. The overall policy of gradualism, of course, reflected the public attitude on the overriding importance of limiting unemployment and other costs of stabilization. It is abundantly clear to me that the costs have been even greater than under the older policies of concentrated stabilization efforts.

A part of the apparent lack of full effectiveness of monetary policies has stemmed from the financial and structural shifts already noted. The growth of Eurodollars and the commercial paper market as sources of funds for banks diluted the impact of system restraining actions. Similarly, the growth of nonbank financial institutions and of direct investments by former bank depositors has shifted a sizable volume of financial transactions away from commercial banks, where the initial impact of monetary policy is centered.

The result of these and a myriad of other changes and shifts in the U.S. position has been a buildup of inflation and inflationary expectations. As these permeated our economic structure, business and consumer decisions began to give heavy weight to future price increases. In turn, these decisions accelerated the price advances, and inflation furthered its toll on the competitiveness of American products in both domestic and foreign markets. As price increases became more visible and prolonged, labor rates were adjusted for cost-of-

living increases. Such wage changes pushed up business costs and were themselves the cause of new rounds of price advances. The cycle then repeated and repeated until last month, when it became abundantly clear that this vicious circle must be interrupted.

Concurrently, all the frustrations, ineffectiveness, implicit depreciation, and forced absorption of dollars converged in a massive international financial crisis. In May, the market pressures forced Germany to float its mark, and three other countries either floated or revalued their currencies. The pressures continued, however, and by early August were again accelerating to the point that market participants were looking for a dollar devaluation. Further drains on the U.S. gold stock, heavy use of the Federal Reserve swap transactions, and large sales of special Treasury issues still failed to stem the tide. Very large movements of funds by multinational corporations to protect against a dollar devaluation or depreciation added to the speculative flows in the exchange markets, and foreign nations were simply swamped with dollar inflows.

In this setting, President Nixon moved boldly to suspend dollar convertibility, place a surcharge on imports, and freeze wages and prices. I will not appraise these moves nor speculate on their eventual outcome. Instead, having painted the broad outlines of some of the causal factors, I turn to the lessons we might learn, hopefully to avoid a recurrence of such crises.

It seems to me that our experience just reemphasizes the validity of some fundamental economic maxims.

- Excessive money creation reduces the value of money and fuels inflation.
- Bad or depreciating money drives good money out of circulation.
- Confidence in value retention is mandatory for a continuously acceptable currency.
- Consumers still look for quality at the cheapest price regardless of place of production.
- Confidence is a prime requisite for economic recovery.
- Retribution for economic or financial excesses and errors is inevitable.
- Procrastination in taking needed forceful action is likely to breed crisis.

Perhaps someday we will learn enough about the complex actual and motivational processes of our economy to anticipate its reactions by timely stabilization moves. Until then, however, we had better pay closer attention to the proved economic fundamentals and strive for policies tuned toward a balance between real and monetary growth, resisting the temporarily alluring features of excessive growth and stimulation. A central feature of this balance must be an assurance of effective monetary and fiscal authority and control, or we are likely to continue down the primrose path of direct intervention and the subsequent inevitable loss of some of our most cherished freedoms.

New par banks

The Keller State Bank, Keller, Texas, an insured nonmember bank located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, was added to the Par List on its opening date, August 26, 1971. The officers are: Nick H. Theodore, President, and Jay C. Sharp, Vice President and Cashier.

The First State Bank, Denison, 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, September 1, 1971. The officers are: Donald L. Hopkins, President; Tom Winters, Vice President and Cashier; and John Belzer, Vice President (Inactive).

Research Department
Federal Reserve Bank of Dallas
Station K, Dallas, Texas 75222

Federal Reserve Bank of Dallas
October 1971

Statistical Supplement to the Business Review

Credit at weekly reporting commercial banks in the Eleventh District rose considerably in the four weeks ended September 22. The increase, in line with a sizable expansion in deposits, was accounted for mainly by a substantial gain in total loans.

The rise in loans resulted primarily from a marked increase in demand for business loans, which may have reflected some improvement in general economic conditions. But real estate loans also increased substantially in response to the continued high level of construction in the District. And consumer loans were considerably stronger.

Total investments expanded much less than usual for this time of year. There was only a slight rise in holdings of Government securities, and holdings of municipal securities rose slightly less than usual.

Although the expansion in total deposits was significant, it was only about half that of comparable periods of other recent years. There were substantial inflows of time and savings deposits, but the rise in demand deposits was comparatively small. Both large CD's outstanding and other time and savings deposits rose more than usual. On balance, reporting banks increased their borrowings from nondeposit sources–particularly in the Eurodollar market.

Total nonagricultural wage and salary employment in the five southwestern states was up slightly in August, rising 0.1 percent above the level for July and 0.4 percent above the level a year before. The monthly change was small due to offsetting movements in manufacturing and nonmanufacturing. Manufacturing employment dropped for the second consecutive month, falling to a level 3.9 percent below a year ago. However, it remained above the three-year low registered in March.

Nonmanufacturing employment rose 0.1 percent over July, continuing its fairly flat trend of the past five months. The major contributor to this upward movement was a 3.2-percent increase in mining employment. The number of jobs in transportation and public utilities also rose, advancing 0.6 percent. Employment in trade was up 0.4 percent. However, substantial drops of 0.8 percent in construction employment and 0.7 percent in government employment prevented any significant overall gain. Finance and services showed essentially no changes.

Because of drouth in the first part of the year, crop production in states of the Eleventh District will probably total slightly less this year than last. The slight decline in crop production, however, is expected to be more than offset by a moderate increase in livestock production.

As in other recent years, the prospects for a gain in livestock production are due mainly to the increased production of beef cattle. This expansion, in turn, results primarily from growth of the cattle feeding industry in Texas and the increase in beef herds in the eastern part of the District.

Of major crops in the District, only cotton and rice are expected to show gains over last year. Although grain sorghum acreage for harvest is about 5 percent greater than last year, dry weather in some areas has reduced the expected yields to a total slightly less than last year. The impact of the drouth on winter wheat was severe, cutting production about a third from the 1970 crop.

Both Texas and Louisiana cut their oil allowables for October. In Texas, the allowable was reduced from 65.1 percent of maximum efficient production in September to 63.2 percent, following reports that crude inventories were greater than needed and that a refinery processing Texas oil had shut down. In Louisiana, where indications were that purchasers would also need less crude, the allowable was cut from 73 percent to 70 percent.

The seasonally adjusted Texas industrial production index continued to hover in August around 180 percent of its 1957-59 base. Although the level of output was high, it had shown little change for the past year. Mining was the only major industry group to register a significant month-to-month change in output, a gain of 1.4 percent.

Although production of durable goods increased only 0.4 percent over July, there were significant increases in two areas. Production of nonelectrical machinery rose 3.8 percent, and production of lumber and wood products rose 3.3 percent. Compared with a year before, the strongest durable goods production was in furniture and fixtures, up 7.3 percent. The weakest was in transportation equipment, down 24.2 percent.

Total production of nondurable goods was essentially unchanged from July. The output of paper

(Continued on back page)

CONDITION STATISTICS OF WEEKLY REPORTING COMMERCIAL BANKS

Eleventh Federal Reserve District

(Thousand dollars)

ASSETS	Sept. 22, 1971	Aug. 25, 1971	Sept. 23, 1970
Federal funds sold and securities purchased under agreements to resell	1,214,238	904,189	428,155
Other loans and discounts, gross	7,011,139	6,881,874	6,130,042
Commercial and industrial loans	3,252,758	3,164,288	2,941,022
Agricultural loans, excluding CCC certificates of interest	121,493	122,227	98,297
Loans to brokers and dealers for purchasing or carrying:			
U.S. Government securities	512	519	507
Other securities	54,019	47,891	34,281
Other loans for purchasing or carrying:			
U.S. Government securities	5,682	5,306	2,296
Other securities	429,785	434,259	413,748
Loans to nonbank financial institutions:			
Sales finance, personal finance, factors, and other business credit companies	137,143	149,626	169,931
Other	484,769	485,089	373,379
Real estate loans	855,208	828,412	623,733
Loans to domestic commercial banks	16,467	13,559	5,943
Loans to foreign banks	31,259	29,321	9,845
Consumer instalment loans	792,040	783,749	739,740
Loans to foreign governments, official institutions, central banks, and international institutions	0	0	0
Other loans	830,004	817,628	717,320
Total investments	3,094,553	3,103,815	2,703,703
Total U.S. Government securities	984,791	1,003,884	923,165
Treasury bills	108,301	128,298	82,684
Treasury certificates of indebtedness	0	0	0
Treasury notes and U.S. Government bonds maturing:			
Within 1 year	156,875	135,982	187,170
1 year to 5 years	589,651	602,817	563,142
After 5 years	129,964	136,787	90,169
Obligations of states and political subdivisions:			
Tax warrants and short-term notes and bills	57,138	49,768	47,257
All other	1,904,233	1,895,453	1,546,896
Other bonds, corporate stocks, and securities:			
Certificates representing participations in Federal agency loans	15,834	15,810	110,079
All other (including corporate stocks)	132,557	138,900	76,306
Cash items in process of collection	1,243,645	1,170,977	1,101,929
Reserves with Federal Reserve Bank	837,268	981,346	964,483
Currency and coin	94,789	96,403	91,737
Balances with banks in the United States	414,904	408,938	562,312
Balances with banks in foreign countries	9,302	8,328	8,498
Other assets (including investments in subsidiaries not consolidated)	477,515	470,912	486,335
TOTAL ASSETS	14,397,353	14,026,782	12,477,194

LIABILITIES	Sept. 22, 1971	Aug. 25, 1971	Sept. 23, 1970
Total deposits	11,033,079	10,929,399	9,796,675
Total demand deposits	6,274,815	6,266,575	5,793,333
Individuals, partnerships, and corporations	4,386,249	4,269,215	3,907,473
States and political subdivisions	257,209	321,685	293,008
U.S. Government	236,306	186,393	235,247
Banks in the United States	1,270,532	1,359,886	1,250,145
Foreign:			
Governments, official institutions, central banks, and international institutions	2,137	6,293	4,235
Commercial banks	33,241	31,897	22,492
Certified and officers' checks, etc.	89,141	91,206	80,733
Total time and savings deposits	4,758,264	4,662,824	4,003,342
Individuals, partnerships, and corporations:			
Savings deposits	1,065,072	1,060,334	922,383
Other time deposits	2,572,961	2,510,922	2,153,709
States and political subdivisions	1,021,053	987,836	795,115
U.S. Government (including postal savings)	26,140	29,786	45,934
Banks in the United States	56,638	56,546	66,716
Foreign:			
Governments, official institutions, central banks, and international institutions	15,300	16,300	18,385
Commercial banks	1,100	1,100	1,100
Federal funds purchased and securities sold under agreements to repurchase	1,685,217	1,482,104	998,607
Other liabilities for borrowed money	77,746	41,656	98,844
Other liabilities	376,073	354,183	421,131
Reserves on loans	119,899	132,556	130,560
Reserves on securities	34,639	21,589	16,360
Total capital accounts	1,070,700	1,065,295	1,015,017
TOTAL LIABILITIES, RESERVES, AND CAPITAL ACCOUNTS	14,397,353	14,026,782	12,477,194

RESERVE POSITIONS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. Thousand dollars)

Item	4 weeks ended Sept. 1, 1971	4 weeks ended Aug. 4, 1971	4 weeks ended Sept. 2, 1970
RESERVE CITY BANKS			
Total reserves held	831,626	829,401	757,363
With Federal Reserve Bank	774,002	772,374	700,022
Currency and coin	57,624	57,027	57,341
Required reserves	844,014	829,497	778,310
Excess reserves	—12,388	—96	—20,947
Borrowings	4,268	29,411	13,157
Free reserves	—16,656	—29,507	—34,104
COUNTRY BANKS			
Total reserves held	885,831	876,924	794,567
With Federal Reserve Bank	685,758	675,974	605,534
Currency and coin	200,073	200,950	189,033
Required reserves	860,128	852,623	773,478
Excess reserves	25,703	24,301	21,089
Borrowings	7,350	7,974	8,395
Free reserves	18,353	16,327	12,694
ALL MEMBER BANKS			
Total reserves held	1,717,457	1,706,325	1,551,930
With Federal Reserve Bank	1,459,760	1,448,348	1,305,556
Currency and coin	257,697	257,977	246,374
Required reserves	1,704,142	1,682,120	1,551,788
Excess reserves	13,315	24,205	142
Borrowings	11,618	37,385	21,552
Free reserves	1,697	—13,180	—21,410

CONDITION STATISTICS OF ALL MEMBER BANKS

Eleventh Federal Reserve District

(Million dollars)

Item	Aug. 25, 1971	July 28, 1971	Aug. 26, 1970
ASSETS			
Loans and discounts, gross	13,648	13,482	11,976
U.S. Government obligations	2,347	2,370	2,048
Other securities	4,291	4,356	3,466
Reserves with Federal Reserve Bank	1,562	1,375	1,448
Cash in vault	291	285	279
Balances with banks in the United States	1,185	1,262	1,284
Balances with banks in foreign countries[e]	11	12	10
Cash items in process of collection	1,360	1,444	1,234
Other assets[e]	959	929	902
TOTAL ASSETS[e]	25,654	25,515	22,647
LIABILITIES AND CAPITAL ACCOUNTS			
Demand deposits of banks	1,749	1,715	1,591
Other demand deposits	9,695	9,669	8,989
Time deposits	9,610	9,609	7,889
Total deposits	21,054	20,993	18,469
Borrowings	1,574	1,544	1,224
Other liabilities[e]	1,139	1,098	1,144
Total capital accounts[e]	1,887	1,880	1,810
TOTAL LIABILITIES AND CAPITAL ACCOUNTS[e]	25,654	25,515	22,647

e — Estimated

CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(Thousand dollars)

Item	Sept. 22, 1971	Aug. 25, 1971	Sept. 23, 1970
Total gold certificate reserves	490,264	550,807	594,856
Discounts for member banks	36,040	4,000	2,900
Other discounts and advances	0	0	0
U.S. Government securities	3,024,791	2,959,804	2,656,389
Total earning assets	3,060,831	2,963,804	2,659,289
Member bank reserve deposits	1,460,866	1,561,886	1,490,364
Federal Reserve notes in actual circulation	2,080,440	2,076,952	1,841,802

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

SMSA's in Eleventh Federal Reserve District

(Dollar amounts in thousands, seasonally adjusted)

Standard metropolitan statistical area	DEBITS TO DEMAND DEPOSIT ACCOUNTS[1]				DEMAND DEPOSITS[1]			
	August 1971 (Annual-rate basis)	Percent change: August 1971 from July 1971	Percent change: August 1971 from August 1970	Percent change: 8 months, 1971 from 1970	August 31, 1971	Annual rate of turnover: August 1971	Annual rate of turnover: July 1971	Annual rate of turnover: August 1970
ARIZONA: Tucson	$ 7,899,348	2%	18%	21%	$ 283,242	28.6	28.0	28.9
LOUISIANA: Monroe	3,726,540	10	26	20	102,642	36.5	34.6	32.0
Shreveport	13,177,416	20	54	21	284,170	47.7	40.6	35.4
NEW MEXICO: Roswell[2]	1,063,968	4	21	7	41,798	25.0	24.2	22.7
TEXAS: Abilene	2,511,564	12	15	9	110,007	23.0	20.9	21.4
Amarillo	6,682,488	7	17	9	178,953	38.3	37.1	35.3
Austin	11,806,872	14	34	21	337,118	32.8	28.7	26.9
Beaumont-Port Arthur-Orange	6,945,864	2	17	9	260,236	26.6	26.7	24.6
Brownsville-Harlingen-San Benito	1,698,612	—18	37	16	82,034	20.5	24.4	17.7
Corpus Christi	6,518,532	5	42	29	266,747	23.8	22.2	21.2
Corsicana[2]	491,352	2	0	11	33,347	14.7	14.4	15.3
Dallas	135,625,908	1	15	11	2,470,649	56.6	57.2	56.5
El Paso	8,648,904	8	16	16	284,129	31.8	31.3	31.8
Fort Worth	29,777,568	10	31	22	706,881	42.3	38.4	35.2
Galveston-Texas City	2,942,256	—1	9	6	116,012	25.6	25.9	24.0
Houston	121,273,200	4	18	12	2,827,778	43.4	41.9	41.2
Laredo	1,076,676	6	8	12	43,656	24.3	22.6	25.1
Lubbock	6,169,284	18	15	13	187,576	34.2	29.7	30.2
McAllen-Pharr-Edinburg	1,728,228	—4	21	14	107,133	15.8	16.4	14.9
Midland	2,166,876	1	16	7	143,048	15.4	15.4	14.2
Odessa	1,753,632	2	7	4	99,706	17.5	17.1	17.8
San Angelo	1,537,296	11	26	20	75,731	20.4	18.4	18.4
San Antonio	22,004,904	6	21	18	763,575	29.5	28.6	27.7
Sherman-Denison	1,189,704	7	13	7	71,112	16.9	16.0	16.4
Texarkana (Texas-Arkansas)	1,591,848	7	12	7	75,312	21.0	19.7	19.8
Tyler	2,494,956	7	10	7	105,218	23.8	22.1	24.2
Waco	3,744,576	12	23	9	136,697	27.8	25.1	25.5
Wichita Falls	2,815,188	8	20	14	126,908	22.4	21.4	20.5
Total—28 centers	$409,063,560	4%	20%	13%	$10,321,415	40.2	38.9	37.8

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

BUILDING PERMITS

Area	NUMBER: August 1971	NUMBER: 8 mos. 1971	VALUATION (Dollar amounts in thousands): August 1971	VALUATION: 8 mos. 1971	Percent change: August 1971 from July 1971	Percent change: August 1971 from Aug. 1970	Percent change: 8 months, 1971 from 1970
ARIZONA							
Tucson	401	5,165	$ 4,167	$ 62,284	—19%	—51%	64%
LOUISIANA							
Monroe-West Monroe	93	810	1,527	13,761	119	128	30
Shreveport	525	4,269	7,903	43,238	22	208	92
TEXAS							
Abilene	56	425	547	8,072	—25	321	22
Amarillo	152	1,138	1,338	18,495	—53	—12	—24
Austin	443	4,103	9,747	101,282	—31	—32	16
Beaumont	160	1,281	1,246	12,059	—73	110	72
Brownsville	126	848	2,107	6,603	64	30	42
Corpus Christi	682	6,634	4,673	42,662	15	359	134
Dallas	1,629	14,896	41,112	204,619	100	152	—13
Denison	41	288	217	2,313	—29	36	—21
El Paso	414	3,887	9,180	77,064	27	96	33
Fort Worth	423	3,398	7,944	82,055	—3	55	44
Galveston	69	562	317	8,549	—52	—50	90
Houston	4,084	30,906	59,751	453,394	25	71	53
Laredo	65	423	320	5,757	—56	—71	5
Lubbock	176	1,652	4,429	53,403	18	—38	32
Midland	73	563	591	8,051	18	77	149
Odessa	83	690	946	5,740	68	250	—12
Port Arthur	120	620	474	4,132	8	206	—39
San Angelo	53	528	628	8,627	—73	142	1
San Antonio	1,692	13,050	9,095	81,375	—16	—13	17
Sherman	58	480	288	4,249	10	—40	—60
Texarkana	45	329	482	6,563	10	338	22
Waco	361	2,430	922	17,164	—409	—658	—385
Wichita Falls	66	631	1,746	14,450	15	33	52
Total—26 cities	12,090	100,006	$171,697	$1,345,961	16%	46%	26%

TOTAL OIL WELLS DRILLED

Area	Second quarter 1971	First quarter 1971	Percent change	1971 cumulative	Percent change from 1970 cumulative
FOUR SOUTHWESTERN STATES	1,622	1,780	—8.9%	3,402	—2.3%
Louisiana	276	255	8.2	531	1.3
Offshore	68	88	—22.7	156	—16.1
Onshore	208	167	24.6	375	10.9
New Mexico	111	104	6.7	215	11.4
Oklahoma	315	293	7.5	608	—17.5
Texas	920	1,128	—18.4	2,048	1.0
Offshore	0	0	—	0	—
Onshore	920	1,128	—18.4	2,048	1.2
UNITED STATES	2,849	2,971	—4.1%	5,820	—9.6%

SOURCE: American Petroleum Institute

GROSS DEMAND AND TIME DEPOSITS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. Million dollars)

Date	GROSS DEMAND DEPOSITS: Total	Reserve city banks	Country banks	TIME DEPOSITS: Total	Reserve city banks	Country banks
1969: August	10,250	4,746	5,504	7,353	2,741	4,612
1970: August	10,530	4,816	5,714	7,783	2,926	4,857
1971: March	11,219	5,117	6,102	9,548	3,788	5,760
April	11,555	5,274	6,281	9,575	3,736	5,839
May	11,348	5,216	6,132	9,516	3,688	5,828
June	11,354	5,224	6,130	9,573	3,691	5,882
July	11,507	5,314	6,193	9,588	3,696	5,892
August	11,468	5,246	6,222	9,615	3,714	5,901

VALUE OF CONSTRUCTION CONTRACTS

(Million dollars)

Area and type	August 1971	July 1971	June 1971	January—August 1971	January—August 1970r
FIVE SOUTHWESTERN STATES[1]	790	932	922	6,074	5,451
Residential building	390	445	464	2,994	2,015
Nonresidential building	226	236	276	1,885	1,792
Nonbuilding construction	173	250	182	1,195	1,643
UNITED STATES	7,712	7,670	8,077	54,291	46,932
Residential building	3,255	3,357	3,485	22,750	16,322
Nonresidential building	2,120	2,621	2,800	17,354	17,225
Nonbuilding construction	2,337	1,691	1,792	14,188	13,385

[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.

NONAGRICULTURAL EMPLOYMENT

Five Southwestern States[1]

Type of employment	Number of persons: August 1971p	July 1971	August 1970r	Percent change Aug. 1971 from: July 1971	Aug. 1970
Total nonagricultural wage and salary workers	6,320,900	6,317,200	6,297,700	0.1%	0.4%
Manufacturing	1,119,100	1,120,000	1,164,700	—.1	—3.9
Nonmanufacturing	5,201,800	5,197,200	5,133,000	.1	1.3
Mining	228,400	221,300	235,400	3.2	—3.0
Construction	386,000	389,000	402,000	—.8	—4.0
Transportation and public utilities	456,000	453,300	457,700	.6	—.4
Trade	1,497,900	1,491,600	1,466,000	.4	2.2
Finance	335,000	335,200	324,200	—.1	3.3
Service	1,036,200	1,035,500	1,022,000	.1	1.4
Government	1,262,300	1,271,300	1,225,700	—.7%	3.0%

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

INDUSTRIAL PRODUCTION

(Seasonally adjusted indexes)

Area and type of index	August 1971p	July 1971	June 1971	August 1970
TEXAS (1957–59 = 100)				
Total industrial production	180.0	179.2	179.4r	178.5r
Manufacturing	196.8	196.7	197.1r	196.7r
Durable	195.5	194.8	197.2	208.5r
Nondurable	197.7	198.0	197.0r	188.9r
Mining	136.2	134.2	134.0r	135.1r
Utilities	291.7	291.7	291.7r	274.0r
UNITED STATES (1967 = 100)				
Total industrial production	105.1	106.0	107.0	107.5
Manufacturing	103.4	104.7	105.3	105.5
Durable	97.2	99.2	100.0	103.5
Nondurable	112.4	112.8	113.0	108.6
Mining	106.6	106.1	109.0	108.9
Utilities	134.0	135.8	134.1	130.5

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	August 1971	July 1971	August 1970r	Percent change from: July 1971	August 1970
FOUR SOUTHWESTERN STATES	6,928.9	6,888.8	6,809.4	0.6%	1.8%
Louisiana	2,629.6	2,557.0	2,494.6	2.8	5.4
New Mexico	330.3	336.2	344.4	—1.8	—4.1
Oklahoma	605.7	601.6	601.6	.7	.7
Texas	3,363.3	3,394.0	3,368.8	—.9	—.2
Gulf Coast	685.2	696.0	678.9	—1.6	.9
West Texas	1,603.0	1,609.0	1,628.0	—.4	—1.5
East Texas (proper)	221.2	226.0	194.4	—2.1	13.8
Panhandle	71.9	72.0	76.4	—.1	—5.9
Rest of state	782.0	791.0	791.1	—1.1	—1.2
UNITED STATES	9,615.0	9,628.3	9,556.4	—.1%	.6%

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

and allied products increased 3.8 percent, and petroleum refining increased 1.8 percent. But the output of leather and leather products dropped 11.1 percent. Running 16.1 percent less than a year before, production of leather goods made up the state's second weakest manufacturing industry.

The increase in mining was due to a 2.2-percent increase in the production of crude oil. And even here, output was only 0.7 percent higher than a year before. Utilities remained unchanged.

Registrations of new passenger automobiles in Dallas, Fort Worth, Houston, and San Antonio were 8 percent lower in August than in July. Despite this decline, registrations were 17 percent higher than in August 1970 and cumulative registrations for the first eight months of 1971 were 10 percent greater than for the same period a year earlier.

Department store sales in the Eleventh District were 9 percent greater in the four weeks ended September 25 than in the corresponding period a year before. Cumulative sales through that date were 8 percent greater than a year before.