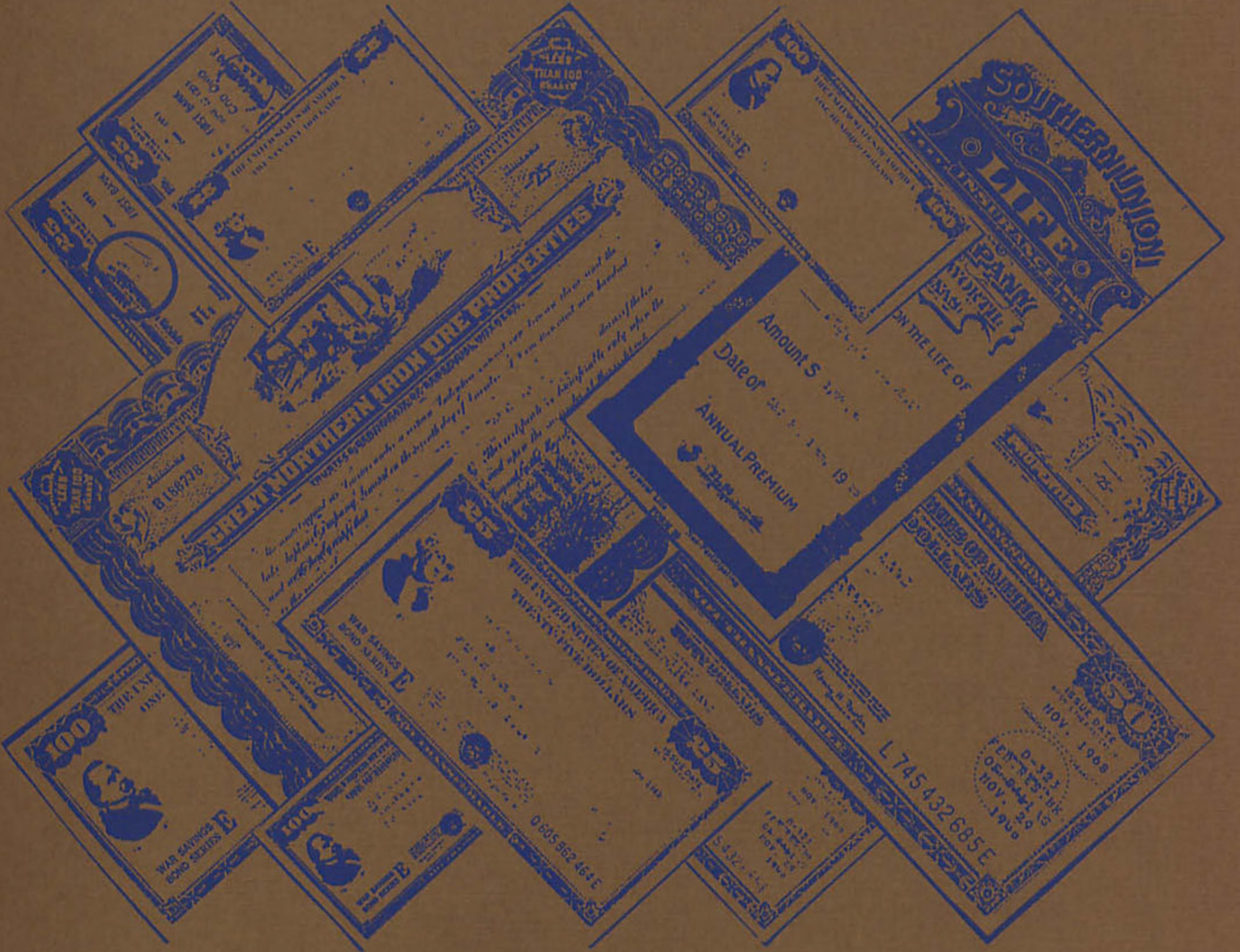
Federal Reserve Bank of Dallas

Business Review



Federal Funds–
A Market Comes of Age in the Eleventh District
Part I: Participation in the Market

March 1972

A Market Comes of Age In the Eleventh District

PART I: PARTICIPATION IN THE MARKET

Trading in Federal funds–balances of member banks at Federal Reserve banks–has expanded rapidly in recent years, providing more banks with a market in which to place excess funds for short periods as well as with a source of short-term borrowing. Once a strictly New York City market in which trading seldom exceeded $20 million a day, the Federal funds market is now a nationwide system in which billions are bought (borrowed) and sold (lent) every day.

In the Eleventh Federal Reserve District, this expansion has amounted to a near-explosion. Sales of Federal funds by all commercial banks tripled between call report dates at the end of 1968 and the end of 1970, soaring from $403 million to $1.5 billion. During that time, purchases by banks in the District more than doubled, increasing from $613 million at the end of 1968 to more than $1.3 billion at the end of 1970.

Commercial banks, of course, dominate the market–in the District and the nation. Participation by other institutions is comparatively minor.[1] Dealers in U.S. Government securities buy and sell Federal funds, but commercial banks are their principal customers. Most banks, in fact, stipulate that transactions with Government security dealers be settled in Federal funds. Other financial institutions–especially agencies of foreign banks and mutual savings banks–also occasionally trade in Federal funds, but the volume of their trading is usually small and their activities in the market are concentrated mainly in New York City.

Although their participation is usually limited, nonfinancial corporations sometimes use the mar-

COMMERCIAL BANKS IN THE FEDERAL FUNDS MARKET, DECEMBER 31

Eleventh Federal Reserve District

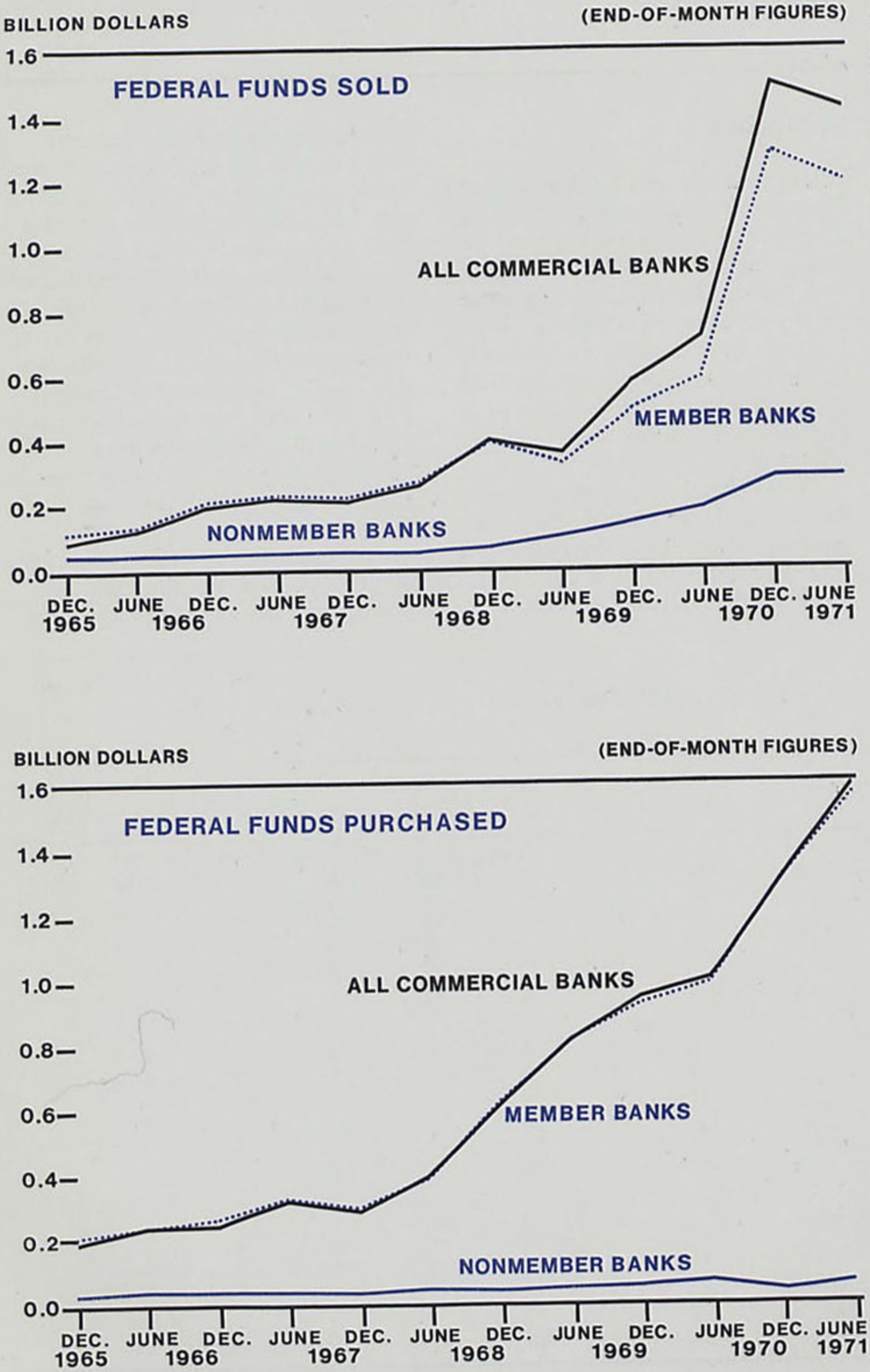
Bank deposit size (Million dollars)	Total number of District banks			Percent of banks: Selling Federal funds			Percent of banks: Buying Federal funds		
	1968	1969	1970	1968	1969	1970	1968	1969	1970
Member banks									
$500 or more	6	6	6	67%	83%	83%	100%	100%	100%
$100 to $499	28	28	33	54	75	91	54	79	91
$50 to $99	32	31	28	41	52	75	22	39	54
$10 to $49	210	221	242	33	46	59	6	9	7
Less than $10	375	354	325	22	44	59	1	3	2
All sizes	651	640	634	28	47	62	7	11	12
Nonmember banks									
$500 or more	0	0	0	0	0	0	0	0	0
$100 to $499	0	0	1	0	0	100	0	0	0
$50 to $99	11	13	17	36	38	71	0	38	6
$10 to $49	170	183	217	17	31	57	4	9	2
Less than $10	461	471	464	3	26	36	(1)	1	2
All sizes	642	667	699	8	28	43	1	4	2
All banks									
$500 or more	6	6	6	67	83	83	100	100	100
$100 to $499	28	28	34	54	75	91	54	79	88
$50 to $99	43	44	45	40	48	73	16	39	36
$10 to $49	380	404	459	26	39	58	5	9	5
Less than $10	836	825	789	12	34	46	1	2	2
All sizes	1,293	1,307	1,333	18%	37%	52%	4%	7%	7%

1. Less than one-half of 1 percent

SOURCES: Federal Deposit Insurance Corporation
Federal Reserve Bank of Dallas

1. For a detailed description of how various types of institutions participate in the market, see *The Federal Funds Market–A Study by a Federal Reserve System Committee*, Board of Governors of the Federal Reserve System, Washington, D.C., May 1959.

Federal funds market expands rapidly in the Eleventh District in recent years



SOURCES: Federal Deposit Insurance Corporation
Federal Reserve Bank of Dallas

ket. Corporations, for example, transact business with Government security dealers, and these transactions are often settled in Federal funds. Corporations seldom participate directly in the market, however, buying and selling instead through commercial banks, which hold actual title to the funds.

Commercial banks are far and away the main participants in the market. And since this is a market for deposits of member banks at Federal Reserve banks, it is not surprising that participants are mostly member banks. Nationwide, member banks account for 80 to 90 percent of the Federal funds purchased and 85 to 95 percent of the Federal funds sold. Furthermore, participation by nonmember banks (which, of course, do not carry reserve balances at Federal Reserve banks) is handled mainly by correspondent banks that are members.

To gauge the significance of this market to banks in the Eleventh District, a study was based on call report data and a survey of more than 100 banks in the District. This article reports on the growth of the market in the District and the increase in participation by various types of banks. A second article will report on the characteristics of Federal funds transactions in the District and the place of these transactions in bank portfolio management. A third article will analyze the impact of the explosive growth of the Federal funds market on the soundness of banks in the District and the servicing of local credit needs.

Growth in sales . . .

Although most of the expansion in Federal funds transactions in the Eleventh District has been at member banks, small nonmember banks have also become more active, particularly in the sale of

Federal funds. Where nonmember banks accounted for only 9 percent of the Federal funds sales in the District at the end of 1968, they accounted for 17 percent two years later.

Analysis of this growth pattern requires an understanding of the structure of banking in the District. There are well over 1,300 commercial banks in the District, due mainly to the fact that Texas–the only state lying entirely within the District–is a unit-banking state. Of the four other District states, only Arizona allows statewide branching. Oklahoma is also a unit-banking state, and Louisiana and New Mexico allow only limited branching.

While the number of banks in the District is large, however, most of them are fairly small, at least by national standards. More than 93 percent of the banks have deposits of less than $50 million. Moreover, only about half of the banks are members of the Federal Reserve System. And while member banks are generally larger than nonmember banks, almost 90 percent of the member banks in this District also have deposits of less than $50 million.

Participation of various sizes and types of banks in the Federal funds market in recent years can be gauged from call report data. While these data may be subject to some distortions due to year-end adjustments by banks (a matter to be discussed later), they show that only 18 percent of the commercial banks in the District reported sales of Federal funds on their books at the end of 1968.

The extent of participation, however, increases with bank size. Larger banks tend to manage their reserve positions more closely than smaller banks do and, as a result, are more likely to invest excess funds in the Federal funds market. Also, larger banks often act as brokers (accommodating banks) for their smaller correspondents, purchasing funds from these banks and reselling them in the Federal funds market. Thus, two-thirds of the largest banks in the District were selling Federal funds at the end of 1968.

As might be expected–since the Federal funds market is essentially a market for member bank deposits at the Federal Reserve Bank–a far larger proportion of member banks participate in the market than do nonmember banks. This is true, regardless of bank size. Of the 375 member banks in the District with less than $10 million in deposits at the end of 1968, 22 percent were selling Federal funds, compared with only 3 percent of the 461 nonmember banks of that size. But the margin of difference between member and nonmember bank participation has narrowed appreciably since that time.

The proportion of banks selling Federal funds has risen sharply in recent years, advancing from 18 percent of all banks in the District at the end of 1968 to 52 percent at the end of 1970. But although the selling of Federal funds has increased at all sizes of banks, the increase has been uniformly much higher for smaller than for larger banks. The proportion of banks selling Federal funds in the $100 million to $499 million deposit group, for example, almost doubled over this two-year period. This in itself is an impressive advance, but the percentage in the less than $10 million deposit group increased nearly fourfold.

But there has also been a tendency for the extent of participation to increase faster among nonmember banks than among member banks of the same size. In the $10 million to $49 million deposit group, for example, the proportion of member banks selling Federal funds did not quite double over this period, while the proportion of nonmember banks selling funds more than tripled. The most dramatic difference was at banks with deposits less than $10 million. In this deposit group, the proportion of member banks selling Federal funds increased about 2½ times while the proportion of nonmember banks increased 12 times.

Several factors may have accounted for this sharp rise in the number of banks selling Federal funds–especially among small banks and nonmember banks. One is that the sizable increase in the Federal funds rate in 1969 probably made sales more attractive to all banks. Nationwide, the Federal funds rate averaged about 6 percent in December 1968, rose to about 9 percent in December 1969, and fell back to about 5 percent in December 1970. The rise in rates between the end of 1968 and the end of 1969 coincided with the sharpest increase in the proportion of banks in the District selling Federal funds.

Although the average Federal funds rate had fallen back by December 1970, there was still a marked increase in the number of banks selling Federal funds that year. This advance was probably due to the difference in demand for loans and availability of bank funds at the two year-ends. The end of 1969 was a fairly tight time for banks. Banks had sustained sizable losses in deposits over the previous year, and loan demand continued heavy. The next year ended more comfortably, with deposit inflows having resumed earlier in the year and loan demands having moderated. Thus, despite the lower Federal funds rate, the increased availability of funds probably furthered the movement into the Federal funds market in 1970.

The faster influx of small nonmember banks was due partly to their having more leeway for such movement than large member banks. More of the large member banks were already selling Federal funds in 1968. Starting from a smaller base, any increase in the number of small nonmember banks selling Federal funds would appear more dramatic.

But the increase reflects more than that. Tight money conditions in 1969 did not hit small banks as hard as larger member banks. Deposits at member banks dropped about 1 percent that year, while deposits at nonmember banks rose 9 percent. The greater availability of funds at nonmember banks was, no doubt, instrumental in inducing them to start selling Federal funds–especially since the Federal funds rate was high. With the easing of conditions in 1970, deposits at member banks rose 10 percent but deposits at nonmember banks increased 15 percent. As a result, even in this period of relative ease, the proportion of banks in the District selling Federal funds rose generally faster among nonmember banks than among member banks.

. . . and purchases

There are fewer purchasers of Federal funds in the District than there are sellers. Only 4 percent of the banks in the District had Federal funds purchases outstanding at the end of 1968, compared with 18 percent that had sales outstanding. Again, in view of the numerical dominance of small banks in the District, this is quite reasonable. Because of their larger excess reserve positions, smaller banks tend to be net sellers of Federal funds.

In fact, the proportion of banks buying Federal funds drops dramatically with bank size. Where all banks with deposits of $500 million or more had Federal funds purchases outstanding at the end of 1968, only 1 percent of the banks with deposits less than $10 million showed purchases on their books.

Member banks are more active in purchases of Federal funds than are nonmember banks of the same size, although the difference is much less pronounced than it was for Federal funds sales. For example, about 6 percent of the member banks with deposits of $10 million to $49 million were engaged in the purchase of Federal funds at the end of 1968, compared with 4 percent of the nonmember banks of that size–indicating, perhaps, that size may be more important than membership in the Federal Reserve System in determining whether a bank buys Federal funds. Whether member or nonmember, small banks probably carry relatively more excess reserves than larger banks and, therefore, have less need to buy Federal funds.

There has been a substantial increase in the number of banks buying Federal funds in recent years, however. The proportion of banks buying funds in the Eleventh District increased from 4 percent of all banks at the end of 1968 to 7 percent at the end of 1970. As might be expected, most of this increase was at large banks. For banks in the $100 million to $499 million deposit size, the ratio rose from 54 percent to 88 percent. For banks in the $50 million to $99 million deposit size, it rose from 16 percent to 36 percent. But for smaller banks, there was little or no change. Again, the distinction between member and nonmember banks seemed to have little bearing on the pattern at smaller banks.

As in the case of sales, the percentage of purchasing banks of all sizes rose more between the end of 1968 and the end of 1969 than between the end of 1969 and the end of 1970. In some cases, the ratio changed very little between the end of 1969 and the end of 1970. In some instances, it even declined.

The difference was doubtlessly due to changes in the availability of funds. Tight credit conditions at the end of 1969 brought a sharp increase in the number of banks buying Federal funds–even at smaller banks, both member and nonmember. Of nonmember banks with deposits of $10 million to $49 million, for example, the percentage buying Federal funds increased from 5 percent in late 1968 to 9 percent a year later.

While the percentage of banks buying Federal funds increased sharply at all sizes of banks in 1969, the pattern varied substantially in 1970, depending on bank size. Larger banks continued to make purchases after funds became more available–and in some cases, in increasing numbers. But in most cases, smaller banks withdrew from purchases, reverting to their previous reserve management policies. The result is an impression that the sharp rise in small bank borrowing in the Federal funds market was partly only a temporary measure taken during a time of extreme credit tightness.

Window dressing problems

There is always the possibility that an analysis such as this will be distorted by the choice of time frames. This is especially true of the year-end data for the call reports. For these reports, banks sometimes show more liquid assets than they normally carry, or fewer short-term liabilities, in an effort to make their balance sheets appear as "sound" as possible–a matter of *window dressing*. And window dressing could include their Federal funds sales and purchases on these dates. These reports must, nevertheless, be used in analyzing the participation of all commercial banks in the Federal funds market. They are the only source of information on the

Federal funds transactions of nonmember banks.

The general accuracy of these reports can be checked, however. Member banks report their Federal funds transactions daily. By picking dates close to those for the call reports, it is possible to evaluate the validity of call report data. To this end, Federal funds data from member banks were collected for the last reporting week in November preceding each of the three end-of-year call reports. For most bank sizes, the proportion of banks buying and selling Federal funds was about the same in November as in December, indicating–for member banks at least–data consistent with the general trend of the figures in the call reports.

Extent of participation

Sheer numbers of banks in the Federal funds market do not, of course, tell the whole story. While there were only six banks in the District with deposits of $500 million or more at the end of 1970, for example, year-end call reports for 1968, 1969, and 1970 show these banks accounting, on average, for roughly a third of the Federal funds sold in the District. Their importance in the market reflects not only their size but also the fact that they function as "accommodating banks," buying Federal funds from smaller correspondents and then selling them to other banks needing to increase their reserves.

The volume of sales declines with the average bank size–down to deposit sizes of about $50 million. But next to the largest banks, banks in the $10 million to $49 million deposit group consistently supplied the greatest amount of Federal funds. At the end of 1969, in fact, they supplied more than the large banks–the banks that typically feel the pinch of tight credit conditions. Such conditions

PERCENTAGE OF MEMBER BANKS SELLING AND BUYING FEDERAL FUNDS, AS OF SELECTED DATES

Eleventh Federal Reserve District

Item and date	All size banks	Bank deposit size (Million dollars) $500 or more	$100 to $499	$50 to $99	$10 to $49	Less than $10
Banks selling Federal funds						
1968						
November 27	33%	80%	79%	41%	44%	25%
December 31	28	67	54	41	33	22
1969						
November 26	47	83	86	58	46	44
December 31	47	83	75	52	46	44
1970						
November 25	69	100	85	86	65	68
December 31	62	83	91	75	59	59
Banks buying Federal funds						
1968						
November 27	9	100	71	38	8	2
December 31	7	100	54	22	6	1
1969						
November 26	13	100	79	65	14	3
December 31	11	100	79	39	9	3
1970						
November 25	15	100	94	54	13	3
December 31	12	100	91	54	7	2

SOURCES: Federal Deposit Insurance Corporation
Federal Reserve Bank of Dallas

SALES OF FEDERAL FUNDS BY COMMERCIAL BANKS, DECEMBER 31

Eleventh Federal Reserve District

(Million dollars)

Bank deposit size (Million dollars)	Total sales 1968	1969	1970	Average sales 1968	1969	1970
Member banks						
$500 or more	$146	$96	$551	$36.5	$19.2	$110.1
$100 to $499	86	149	325	5.8	7.1	10.8
$50 to $99	19	44	65	1.6	2.8	3.1
$10 to $49	79	110	205	1.1	1.0	1.4
Less than $10	38	63	106	.5	.4	.5
All sizes	368	462	1,252	2.0	1.5	3.1
Nonmember banks						
$500 or more	0	0	0	—	—	—
$100 to $499	0	0	5	—	—	5.0
$50 to $99	12	17	43	2.4	3.4	3.6
$10 to $49	18	52	132	.7	1.0	1.2
Less than $10	4	48	71	.1	.4	.4
All sizes	35	117	251	.6	.6	.8
All banks						
$500 or more	146	96	551	36.5	19.2	110.1
$100 to $499	86	149	330	5.8	7.1	10.6
$50 to $99	31	61	108	1.8	2.9	3.3
$10 to $49	97	162	347	1.0	1.0	1.3
Less than $10	42	111	167	.4	.4	.5
All sizes	$403	$579	$1,503	$1.7	$1.2	$2.2

NOTE: Details may not add to totals because of rounding.
SOURCES: Federal Deposit Insurance Corporation
Federal Reserve Bank of Dallas

PURCHASES OF FEDERAL FUNDS BY COMMERCIAL BANKS, DECEMBER 31

Eleventh Federal Reserve District

(Million dollars)

Bank deposit size (Million dollars)	Total purchases 1968	Total purchases 1969	Total purchases 1970	Average purchases 1968	Average purchases 1969	Average purchases 1970
Member banks						
$500 or more....	$495	$642	$989	$82.5	$106.9	$164.8
$100 to $499.....	98	218	276	6.5	9.9	9.2
$50 to $99.......	7	35	19	.9	2.9	1.3
$10 to $49.......	7	15	13	.6	.8	.7
Less than $10....	1	2	2	.3	.2	.3
All sizes	607	912	1,298	14.1	13.4	16.7
Nonmember banks						
$500 or more....	0	0	0	—	—	—
$100 to $499.....	0	0	0	—	—	—
$50 to $99.......	0	16	6	—	3.2	6.0
$10 to $49.......	5	13	1	.8	.7	.3
Less than $10....	(1)	1	4	(1)	.3	.5
All sizes	6	30	12	.8	1.1	.8
All banks						
$500 or more....	495	642	989	82.5	106.9	164.8
$100 to $499.....	98	218	276	6.5	9.9	9.2
$50 to $99.......	7	51	25	.9	3.0	1.6
$10 to $49.......	12	28	14	.7	.8	.6
Less than $10....	1	3	6	.3	.2	.4
All sizes	$613	$942	$1,310	$12.3	$9.8	$14.4

1. Less than $500,000
NOTE: Details may not add to totals because of rounding.
SOURCES: Federal Deposit Insurance Corporation
Federal Reserve Bank of Dallas

TOTAL SALES AND PURCHASES OF FEDERAL FUNDS BY MEMBER BANKS, AS OF SELECTED DATES

Eleventh Federal Reserve District

(Million dollars)

Item and date	All size banks	Bank deposit size (Million dollars): $500 or more	$100 to $499	$50 to $99	$10 to $49	Less than $10
Total sales						
1968						
November 27	$432	$135	$151	$19	$80	$47
December 31	368	146	86	19	79	38
1969						
November 26	622	279	127	39	94	83
December 31	462	96	149	44	110	63
1970						
November 25	1,106	405	339	79	172	111
December 31	1,252	551	325	65	205	106
Total purchases						
1968						
November 27	345	203	110	21	9	2
December 31	607	495	98	7	7	1
1969						
November 26	1,024	633	305	57	26	3
December 31	912	642	218	35	15	2
1970						
November 25	1,117	696	374	22	22	3
December 31	1,298	989	276	19	13	2

NOTE: Details may not add to totals because of rounding.
SOURCES: Federal Deposit Insurance Corporation
Federal Reserve Bank of Dallas

were prevailing at the end of 1969, and large banks probably had less money to put into the Federal funds market than smaller banks.

Growth in sales between the end of 1968 and the end of 1970 was fairly uniform for all sizes of banks, rising roughly 3½ times over this period. There were some sharper increases in the volume of funds supplied by nonmember banks, however, particularly by smaller banks. The amount supplied by nonmember banks in the $10 million to $49 million deposit class rose more than seven times over these two years, but the amount supplied by nonmember banks with deposits less than $10 million rose more than 17 times. These increases reflected not only more banks entering the Federal funds market but also a larger average amount sold by each bank.

Average sales per bank are, of course, greater at large banks than at small banks. This was true at all three year-ends and at member and nonmember banks alike. Moreover, the range of difference was quite wide. At the end of 1970, for example, sales outstanding at the largest banks averaged $110 million while those at the smallest banks averaged only $500,000.

Growth in the average size of sales has also been greatest at the largest banks. Where the average size of sales at the six largest banks tripled between the end of 1968 and the end of 1970, the increase at banks of the smallest size was only about 25 percent. Again, the greater increase at larger banks partly reflects that most of the sales of smaller banks are made to these larger accommodating banks, which then resell the funds.

It is clear, nevertheless, that the increase in Federal funds sold in each size class over the past few years reflects both the increase in the number of banks participating in the market and the increase in the average size of sales at each bank. At larger banks, most of the increase has been due more to a rise in the average amount of the transactions. At smaller banks, the increase has been due mainly to a rise in the number of banks selling Federal funds.

Federal funds purchases are even more concentrated at the largest banks. All three call reports show the six largest banks in the District accounting for almost 75 percent of the Federal funds purchases. Moreover, the amount of Federal funds purchased drops sharply with the size of banks. Purchases at the smallest banks were relatively insignificant, whether the banks were members or nonmembers.

There has, nevertheless, been a substantial increase in purchases at most sizes of banks since the end of 1968. In dollar terms, the increase has been greater at the larger banks. But in percentage terms, it has been greater at smaller banks. From the end of 1968 to the end of 1970, purchases at the six largest banks roughly doubled. But purchases at banks in the $100 million to $499 million deposit size nearly tripled, and purchases at the smallest size banks increased six times.

The pattern of this expansion was almost certainly due to the larger number of small banks entering the market. Where large banks had long before integrated Federal funds purchases into their liability positions, many smaller banks were probably just beginning to buy Federal funds in late 1968. As a result, a sharp percentage increase in their purchases could probably be expected.

This is borne out further by the change in the per-bank average of Federal funds purchases at various sizes of banks over this two-year period. With only a nominal rise in the average size of Federal funds purchases at small banks—an advance from $300 million to $400 million—the sixfold increase in the total dollar volume of purchases by these banks seems due mainly to new entrants into the market.

Large banks, on the other hand, increased their average purchases appreciably. The largest banks more than doubled their average purchases. Therefore, as in the case of sales, the increase in purchases of Federal funds at large banks has been more a function of increased volume of purchases than any increase in the number of banks in the market. But the reverse is true of the increase at smaller banks.

Window dressing again

Again, to check the reliability of call report data that might have been distorted by window dressing, data for the last of December were compared with Federal funds sales and purchases of member banks at the end of November preceding the three call reports. The consistency was not quite as good as the earlier check into the proportion of banks buying or selling Federal funds. This was expected, however, since sales and purchases include variations not only in the number of banks in the market but also in the average size of their transactions.

Consistency was poorest among large banks. This, too, is not surprising, since large banks are more active in the market and have wider swings in their Federal funds positions.

Overall, however, both total and average purchases and sales at the end of November were consistent enough with those on dates of call reports to bear out the general conclusions of the previous analysis with regard to member banks.

Summing up

The sharp rise in the dollar volume of Federal funds transactions in the Eleventh District, then, re-

AVERAGE SALES AND PURCHASES OF FEDERAL FUNDS BY MEMBER BANKS, AS OF SELECTED DATES

Eleventh Federal Reserve District

(Million dollars)

Item and date	All size banks	Bank deposit size (Million dollars) $500 or more	$100 to $499	$50 to $99	$10 to $49	Less than $10
Average sales						
1968						
November 27	$2.0	$33.8	$6.8	$1.5	$1.1	$0.5
December 31	2.0	36.5	5.8	1.6	1.1	.5
1969						
November 26	2.0	55.8	4.5	2.1	1.1	.5
December 31	1.5	19.2	7.1	2.8	1.0	.4
1970						
November 25	2.7	67.5	12.1	3.3	1.2	.5
December 31	3.1	110.1	10.8	3.1	1.4	.5
Average purchases						
1968						
November 27	6.2	33.8	6.1	1.7	.7	.3
December 31	14.1	82.5	6.5	.9	.6	.3
1969						
November 26	12.0	105.5	14.5	2.9	1.0	.2
December 31	13.4	106.9	9.9	2.9	.8	.2
1970						
November 25	12.6	116.0	12.5	1.5	.8	.3
December 31	16.7	164.8	9.2	1.3	.7	.3

SOURCES: Federal Deposit Insurance Corporation
Federal Reserve Bank of Dallas

flects, at least in part, the substantial change in the number and types of banks participating in the market. The market is still dominated by a few large banks. But these banks have maintained their share of the market over this two-year period only by tripling their outstanding sales of Federal funds and doubling their outstanding purchases.

The inroads smaller banks have made into the market, on the other hand, reflect the increasing number of such banks that have entered the market over this period, rather than any significant increase in the dollar volume of transactions by those already in the market.

This movement of small banks into the market is most apparent in the increase in Federal funds sales–an increase probably spurred by the high interest rates on Federal funds over most of the period and by the greater availability of funds at small banks.

But the recent pattern of growth in Federal funds trading is also affected by differences in the portfolio management policies of various sizes of banks, as well as the characteristics of Federal funds transactions. These are matters to be explored in an article next month.

–Joseph E. Burns

New par banks

The Bank of Commerce, Point Comfort, 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, February 10, 1972. The officers are: Jno. J. Faubion, Jr., President and Chairman of the Board; Edwin A. Wagner, Executive Vice President; James McSpadden, Vice President; and Fred A. Knipling, Vice President and Cashier.

The Western State Bank, Midland, 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, February 11, 1972. The officers are: William J. Mewhorter, President; Charles Danley, Vice President; and Steve Short, Cashier.

The Community 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, February 15, 1972. The officers are: Robert A. Partain, President, and Preston H. Rachal, Vice President and Cashier.

Federal Reserve Bank of Dallas
March 1972

Statistical Supplement to the Business Review

Total credit at weekly reporting commercial banks in the Eleventh District rose only slightly in the four weeks ended February 23. But even this slight gain was in contrast to declines in comparable periods for the past six years. Reflected in the rise were moderate increases in total loans and holdings of U.S. Government securities that offset a reduction in holdings of municipal issues. Total deposits advanced substantially.

The moderate rise in total loan demand reflected larger than usual increases in business and real estate loans, probably resulting from continued improvement in general economic conditions and increased construction activity. Demand for most other types of loans was slightly weaker than seasonally expected. Mainly because of increased holdings of long-term Government issues, the decline in total investments was considerably less than usual for this period.

Inflows of demand deposits and consumer-type time and savings deposits increased sharply, and with a moderate increase in large CD's outstanding, total deposits rose substantially. With a sizable expansion in deposits and only moderate loan demand, banks made considerable reductions in their Eurodollar borrowings and net purchases of Federal funds.

The seasonally adjusted Texas industrial production index resumed its upward trend in January, moving to a new high of 125.9 percent of its 1967 base. Although most gains were moderate, renewed strength was apparent in almost all manufacturing industries. The only exception was the printing and publishing industry, which showed a slight decline in output from December. The textile industry showed the largest gain, increasing its output 4.4 percent. The apparel industry increased its production a substantial 2.4 percent, and petroleum refining showed a strong gain of 2.3 percent. Production of both durable and nondurable goods ran well ahead of year-earlier levels.

Mining output recovered from its December drop, advancing 2.3 percent. The largest month-to-month gains were in natural gas liquids, up 3.0 percent, and crude petroleum, up 2.3 percent. Distribution of electricity continued to slow, causing utility output to drop 1.5 percent from its December level. Even with this drop, however, utility output was still 6.9 percent more than in January 1971.

Registrations of new passenger automobiles in Dallas, Fort Worth, Houston, and San Antonio fell 23 percent in January. However, registrations were still 17 percent higher than in January of last year.

The seasonally adjusted preliminary estimate of total employment in the five southwestern states rose a significant 1.3 percent in January. And with this sharp gain in employment, the average unemployment rate for these states dropped to 4.5 percent, the lowest rate in more than a year. Nonfarm wage and salary employment rose 1.0 percent over December and 3.3 percent over January 1971.

Employment gains were about equal in manufacturing and nonmanufacturing. Of the industry groups outside manufacturing, only service industries showed a decline from December–a drop of 0.2 percent. The greatest improvement was in construction, which showed 3.1 percent more jobs than in December. Employment in trade rose a strong 1.8 percent, and the transportation and public utility group showed a gain of 1.3 percent. The only year-to-year loss in employment was in mining, which nevertheless showed a 0.8-percent gain over December.

Department store sales in the Eleventh District were 8 percent higher in the four weeks ended February 26 than in the corresponding period a year earlier. Cumulative sales through that date were 9 percent higher than in the same period a year before.

The Texas oil allowable was raised for March to 86 percent of maximum efficient production. The boost–which returned the allowable close to the record rates of late 1970–came after an unusual second increase in the February rate. In response to refiners' requests for more Texas crude, the allowable for February was increased to 75.8 percent from the previously announced 71.7 percent. Meanwhile, Louisiana continued for March the 75-percent flow rate first announced in November. The rate in Oklahoma continued at 200 percent of maximum efficient production, and the rate set in New Mexico for January and February was continued for March and April.

Regulatory commissions in Texas and Louisiana expressed doubt that their states could continue meeting the increasing demands *(Continued on back page)*

CONDITION STATISTICS OF WEEKLY REPORTING COMMERCIAL BANKS

Eleventh Federal Reserve District

(Thousand dollars)

ASSETS	Feb. 23, 1972	Jan. 26, 1972	Feb. 24, 1971
Federal funds sold and securities purchased under agreements to resell	1,222,013	1,155,313	681,027
Other loans and discounts, gross	7,350,532	7,321,455	6,601,660
Commercial and industrial loans	3,411,347	3,382,989	3,177,783
Agricultural loans, excluding CCC certificates of interest	169,161	165,987	119,010
Loans to brokers and dealers for purchasing or carrying:			
U.S. Government securities	1,125	500	500
Other securities	51,142	53,749	43,928
Other loans for purchasing or carrying:			
U.S. Government securities	4,650	5,254	1,645
Other securities	445,404	449,502	429,629
Loans to nonbank financial institutions:			
Sales finance, personal finance, factors, and other business credit companies	121,278	130,787	189,818
Other	477,793	492,273	438,467
Real estate loans	912,421	901,182	653,373
Loans to domestic commercial banks	20,911	20,341	13,832
Loans to foreign banks	36,487	28,488	10,386
Consumer instalment loans	820,323	824,305	733,026
Loans to foreign governments, official institutions, central banks, and international institutions	0	0	0
Other loans	878,490	866,098	790,263
Total investments	3,372,420	3,389,284	2,893,075
Total U.S. Government securities	1,091,917	1,077,185	978,602
Treasury bills	124,750	125,484	123,093
Treasury certificates of indebtedness	0	0	0
Treasury notes and U.S. Government bonds maturing:			
Within 1 year	193,261	187,356	174,252
1 year to 5 years	586,355	599,905	512,003
After 5 years	187,551	164,440	169,254
Obligations of states and political subdivisions:			
Tax warrants and short-term notes and bills	69,314	98,981	32,882
All other	2,017,011	2,028,663	1,646,574
Other bonds, corporate stocks, and securities:			
Certificates representing participations in federal agency loans	16,640	16,686	91,793
All other (including corporate stocks)	177,538	167,769	143,224
Cash items in process of collection	1,490,549	1,312,009	1,171,427
Reserves with Federal Reserve Bank	929,926	1,038,574	917,362
Currency and coin	98,105	100,931	88,482
Balances with banks in the United States	470,981	442,279	572,826
Balances with banks in foreign countries	12,475	12,111	7,998
Other assets (including investments in subsidiaries not consolidated)	554,541	511,383	460,119
TOTAL ASSETS	15,501,542	15,283,339	13,393,976

LIABILITIES	Feb. 23, 1972	Jan. 26, 1972	Feb. 24, 1971
Total deposits	12,024,421	11,676,602	10,735,048
Total demand deposits	6,625,982	6,402,055	6,067,081
Individuals, partnerships, and corporations	4,534,081	4,417,074	4,111,296
States and political subdivisions	429,591	350,787	330,823
U.S. Government	161,153	206,329	166,128
Banks in the United States	1,364,476	1,308,406	1,328,883
Foreign:			
Governments, official institutions, central banks, and international institutions	3,335	2,392	2,819
Commercial banks	41,803	32,103	28,972
Certified and officers' checks, etc.	91,543	84,964	98,160
Total time and savings deposits	5,398,439	5,274,547	4,667,967
Individuals, partnerships, and corporations:			
Savings deposits	1,122,498	1,096,221	974,688
Other time deposits	2,781,515	2,757,116	2,496,561
States and political subdivisions	1,365,105	1,302,291	1,057,337
U.S. Government (including postal savings)	10,042	15,453	30,581
Banks in the United States	94,879	82,566	95,015
Foreign:			
Governments, official institutions, central banks, and international institutions	23,300	19,800	12,685
Commercial banks	1,100	1,100	1,100
Federal funds purchased and securities sold under agreements to repurchase	1,789,179	1,910,845	999,089
Other liabilities for borrowed money	39,703	41,601	68,222
Other liabilities	397,116	394,511	401,159
Reserves on loans	136,235	144,211	138,439
Reserves on securities	23,481	22,632	19,471
Total capital accounts	1,091,407	1,092,937	1,032,548
TOTAL LIABILITIES, RESERVES, AND CAPITAL ACCOUNTS	15,501,542	15,283,339	13,393,976

RESERVE POSITIONS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. Thousand dollars)

Item	4 weeks ended Feb. 2, 1972	5 weeks ended Jan. 5, 1972	4 weeks ended Feb. 3, 1971
RESERVE CITY BANKS			
Total reserves held	888,099	851,425	820,983
With Federal Reserve Bank	824,254	785,148	764,630
Currency and coin	63,845	66,277	56,353
Required reserves	876,670	889,126	817,634
Excess reserves	11,429	—37,701	3,349
Borrowings	0	0	0
Free reserves	11,429	—37,701	3,349
COUNTRY BANKS			
Total reserves held	959,336	912,046	858,082
With Federal Reserve Bank	746,502	706,155	658,507
Currency and coin	212,834	205,891	199,575
Required reserves	928,953	907,401	828,250
Excess reserves	30,383	4,645	29,832
Borrowings	528	1,924	214
Free reserves	29,855	2,721	29,618
ALL MEMBER BANKS			
Total reserves held	1,847,435	1,763,471	1,679,065
With Federal Reserve Bank	1,570,756	1,491,303	1,423,137
Currency and coin	276,679	272,168	255,928
Required reserves	1,805,623	1,796,527	1,645,884
Excess reserves	41,812	—33,056	33,181
Borrowings	528	1,924	214
Free reserves	41,284	—34,980	32,967

CONDITION STATISTICS OF ALL MEMBER BANKS

Eleventh Federal Reserve District

(Million dollars)

Item	Jan. 26, 1972	Dec. 29, 1971	Jan. 27, 1971
ASSETS			
Loans and discounts, gross	14,748	14,825	12,878
U.S. Government obligations	2,434	2,611	2,280
Other securities	4,636	4,572	3,834
Reserves with Federal Reserve Bank	1,708	1,687	1,461
Cash in vault	303	323	282
Balances with banks in the United States	1,257	1,336	1,407
Balances with banks in foreign countries[e]	14	17	12
Cash items in process of collection	1,525	1,624	1,418
Other assets[e]	860	928	882
TOTAL ASSETS[e]	27,485	27,923	24,454
LIABILITIES AND CAPITAL ACCOUNTS			
Demand deposits of banks	1,721	1,812	1,834
Other demand deposits	10,071	10,734	9,468
Time deposits	10,689	10,457	9,130
Total deposits	22,481	23,003	20,432
Borrowings	1,998	1,726	1,113
Other liabilities[e]	1,088	1,287	1,071
Total capital accounts[e]	1,918	1,907	1,838
TOTAL LIABILITIES AND CAPITAL ACCOUNTS[e]	27,485	27,923	24,454

e—Estimated

CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(Thousand dollars)

Item	Feb. 23, 1972	Jan. 26, 1972	Feb. 24, 1971
Total gold certificate reserves	390,426	526,046	580,081
Discounts for member banks	200	805	0
Other discounts and advances	0	0	0
U.S. Government securities	3,179,109	3,252,146	2,807,527
Total earning assets	3,179,309	3,252,951	2,807,527
Member bank reserve deposits	1,612,124	1,708,360	1,558,081
Federal Reserve notes in actual circulation	2,081,315	2,078,856	1,892,589

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]			
	January 1972 (Annual-rate basis)	Percent change from		January 31, 1972	Annual rate of turnover		
		December 1971	January 1971		January 1972	December 1971	January 1971
ARIZONA: Tucson	$8,549,028	1%	24%	$307,388	28.8	30.7	29.5
LOUISIANA: Monroe	3,602,736	1	19	98,952	36.3	35.8	33.8
Shreveport	11,192,916	—6	16	280,637	40.5	44.0	37.3
NEW MEXICO: Roswell[2]	1,010,052	2	14	43,538	23.3	22.7	22.1
TEXAS: Abilene	2,379,888	3	12	106,751	22.3	21.9	20.3
Amarillo	6,782,880	0	10	170,054	38.6	38.9	38.7
Austin	14,453,880	28	54	372,290	39.4	31.2	28.0
Beaumont-Port Arthur-Orange	7,213,380	16	17	259,541	27.2	23.8	24.7
Brownsville-Harlingen-San Benito	2,384,388	2	19	87,548	27.1	25.9	25.6
Bryan-College Station	1,162,392	5	32	46,985	24.8	23.9	20.6
Corpus Christi	7,237,056	—4	21	262,330	26.4	27.3	21.2
Corsicana[2]	489,840	—3	12	34,555	14.6	15.4	13.9
Dallas	140,472,576	1	4	2,596,724	56.0	57.4	62.0
El Paso	8,944,452	—3	19	263,917	32.7	31.9	30.7
Fort Worth	27,469,092	10	18	743,158	37.2	34.8	34.9
Galveston-Texas City	3,132,492	13	—2	125,607	25.4	24.3	27.6
Houston	127,671,612	9	15	2,983,519	44.2	41.8	44.8
Laredo	1,199,232	14	32	45,219	26.1	23.4	21.8
Lubbock	5,338,296	31	44	178,633	30.8	23.7	22.6
McAllen-Pharr-Edinburg	2,605,104	30	55	136,927	19.9	16.6	16.6
Midland	2,137,356	13	8	148,998	14.6	13.4	14.9
Odessa	1,776,492	3	11	100,942	18.3	18.2	17.2
San Angelo	1,550,748	4	11	77,362	19.8	19.7	19.3
San Antonio	22,539,876	10	20	751,587	30.0	27.6	28.8
Sherman-Denison	1,216,428	6	12	71,397	17.9	17.2	16.7
Texarkana (Texas-Arkansas)	1,748,040	7	33	80,541	20.2	18.9	18.3
Tyler	2,508,288	5	10	112,623	22.2	21.8	23.2
Waco	3,817,920	11	27	128,100	28.9	25.3	24.6
Wichita Falls	2,869,548	9	19	127,025	22.5	20.7	20.6
Total—29 centers	$423,455,988	6%	13%	$10,742,848	40.2	38.9	40.2

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

BUILDING PERMITS

Area	NUMBER	VALUATION (Dollar amounts in thousands)		
			Percent change January 1972 from	
	January 1972	January 1972	December 1971	January 1971
ARIZONA				
Tucson	694	$18,009	80%	319%
LOUISIANA				
Monroe-West Monroe	69	1,419	65	—25
Shreveport	401	3,714	—20	51
TEXAS				
Abilene	53	613	29	104
Amarillo	125	2,252	91	100
Austin	523	16,877	—33	14
Beaumont	153	1,302	16	74
Brownsville	97	631	—11	66
Corpus Christi	460	4,408	—66	8
Dallas	1,250	33,226	99	42
Denison	27	321	157	—32
El Paso	408	28,099	88	271
Fort Worth	372	6,222	29	44
Galveston	55	250	—7	—87
Houston	2,393	38,307	—8	4
Laredo	61	1,537	639	5
Lubbock	175	3,026	—81	—47
Midland	91	1,637	225	539
Odessa	73	715	119	32
Port Arthur	60	336	265	31
San Angelo	86	605	51	73
San Antonio	1,314	11,537	—25	101
Sherman	42	501	127	—44
Texarkana	36	616	—35	—23
Waco	175	1,394	—46	8
Wichita Falls	59	876	—70	—22
Total—26 cities	9,252	$178,430	2%	45%

INDUSTRIAL PRODUCTION

(Seasonally adjusted indexes, 1967 = 100)

Area and type of index	January 1972p	December 1971	November 1971	January 1971
TEXAS				
Total industrial production	125.9	124.1	124.6r	120.3
Manufacturing	129.4	127.6	127.4r	120.5
Durable	137.2	135.5	137.6	130.6
Nondurable	123.7	121.8	120.0r	113.2
Mining	112.8	110.3	112.4r	116.2
Utilities	143.3	144.1	145.4r	134.0
UNITED STATES				
Total industrial production	107.9	107.6	107.0	105.3
Manufacturing	106.1	105.7	105.2r	103.3
Durable	98.4	98.4	98.0r	98.1
Nondurable	117.2	116.5	115.8r	110.9
Mining	108.4	107.3	102.0r	111.1
Utilities	137.2	137.1	139.6r	129.6

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

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
1970: January	10,793	4,910	5,883	7,108	2,568	4,540
1971: January	11,532	5,236	6,296	9,038	3,635	5,403
August	11,468	5,246	6,222	9,615	3,714	5,901
September	11,571	5,311	6,260	9,735	3,769	5,966
October	11,562	5,246	6,316	9,977	3,819	6,158
November	11,641	5,264	6,377	10,025	3,879	6,146
December	11,981	5,519	6,462	10,273	4,044	6,229
1972: January	12,313	5,580	6,733	10,672	4,244	6,428

DAILY AVERAGE PRODUCTION OF CRUDE OIL

(Thousand barrels)

Area	January 1972	December 1971	January 1971r	Percent change from December 1971	Percent change from January 1971
FOUR SOUTHWESTERN STATES	6,691.9	6,621.6	7,073.6	1.1%	−5.4%
Louisiana	2,485.9	2,522.3	2,610.2	−1.4	−4.8
New Mexico	323.1	320.0	334.8	1.0	−3.5
Oklahoma	592.3	588.9	594.1	.6	−.3
Texas	3,290.6	3,190.4	3,534.5	3.1	−6.9
Gulf Coast	626.2	612.7	717.8	2.2	−12.8
West Texas	1,650.1	1,587.2	1,684.9	4.0	−2.1
East Texas (proper)	200.1	196.5	221.8	1.8	−9.8
Panhandle	71.8	72.3	72.8	−.7	−1.4
Rest of state	742.4	721.7	837.2	2.9	−11.3
UNITED STATES	9,305.7	9,260.3	9,724.6	.5%	−4.3%

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

LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Five Southwestern States[1]

(Seasonally adjusted)

Item	Thousands of persons: January 1972p	December 1971	January 1971r	Percent change Jan. 1972 from: Dec. 1971	Jan. 1971
Civilian labor force	8,467.2	8,384.7	8,268.1	1.0%	2.4%
Total employment	8,086.0	7,981.7	7,860.6	1.3	2.9
Total unemployment	381.3	403.0	407.5	−5.4	−6.4
Unemployment rate	4.5%	4.8%	4.9%	[2]−.3	[2]−.4
Total nonagricultural wage and salary employment	6,527.1	6,461.2	6,319.9	1.0	3.3
Manufacturing	1,147.4	1,135.2	1,129.0	1.1	1.6
Durable	616.5	614.4	609.9	.3	1.1
Nondurable	530.8	520.8	519.1	1.9	2.3
Nonmanufacturing	5,379.7	5,326.0	5,190.9	1.0	3.6
Mining	229.2	227.4	230.5	.8	−.6
Construction	430.5	417.5	394.2	3.1	9.2
Transportation and public utilities	456.0	450.2	455.8	1.3	.0
Trade	1,550.9	1,522.9	1,486.7	1.8	4.3
Finance	344.8	342.6	326.9	.6	5.5
Service	1,038.2	1,040.5	1,017.0	−.2	2.1
Government	1,330.0	1,324.9	1,279.9	.4%	3.9%

1. Arizona, Louisiana, New Mexico, Oklahoma, and Texas
2. Actual change
p—Preliminary
r—Revised
NOTE: Details may not add to totals because of rounding.
SOURCES: State employment agencies
Federal Reserve Bank of Dallas (seasonal adjustment)

LIVESTOCK ON FARMS AND RANCHES, JANUARY 1

(Thousands)

Type	Texas 1972	Texas 1971	Five southwestern states[1] 1972	Five southwestern states[1] 1971	United States 1972	United States 1971
All cattle and calves	12,829	12,578	22,813	22,029	117,916	114,470
Milk cows	355	355	752	757	12,279	12,414
Beef cows	5,452	5,791	9,630	9,891	38,725	37,533
Sheep	3,524	3,789	4,914	5,239	18,482	19,597
Stock sheep	3,125	3,510	4,359	4,822	15,767	16,968
Feeders	399	279	555	417	2,715	2,629
Hogs[2]	1,405	1,419	2,387	2,316	62,972	67,449
Layer chickens	12,602	13,054	[3]18,713	[3]19,600	329,890	334,582
Turkey breeder hens[2]	556	538	[4]564	[4]576	3,375	3,405

1. Arizona, Louisiana, New Mexico, Oklahoma, and Texas
2. Data as of December of preceding year
3. Louisiana, Oklahoma, and Texas only
4. Oklahoma and Texas only
SOURCE: U.S. Department of Agriculture

VALUE OF CONSTRUCTION CONTRACTS

(Million dollars)

Area and type	January 1972	December 1971	November 1971	January 1971r
FIVE SOUTHWESTERN STATES[1]	840	807	803	542
Residential building	413	405	381	227
Nonresidential building	221	198	179	221
Nonbuilding construction	207	204	244	93
UNITED STATES	6,234	6,286	6,405	4,374
Residential building	2,667	2,997	3,001	1,621
Nonresidential building	1,728	1,959	2,128	1,721
Nonbuilding construction	1,840	1,331	1,275	1,032

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

being placed on their fields. High rates of production are straining the capacity of many fields in both states.

Cotton harvest in the five states of the Eleventh District is almost complete and, according to January estimates, should total about 4.2 million bales–8 percent fewer than last season. A drop in the production of upland cotton accounted for all the decline. Pima cotton production increased nearly 60 percent. However, higher prices for all qualities of cotton dampen the economic impact of lower production.

Intended plantings for this year indicate acreage increases of 6 percent for cotton and 5 percent for soybeans. Corn acreage is expected to decline 11 percent, and sorghum acreage will be about the same as last year.

The five states had 22.8 million head of cattle on January 1–3.6 percent more than at the start of 1971. Texas, with 12.8 million head, continued to lead in the Southwest. Totaling only 4.9 million, sheep and lamb numbers in the region were off 6 percent from a year earlier.

Cash receipts from farm marketings in the five states totaled $6.1 billion last year–3 percent more than in 1970. With the increase in costs, however, net income to farmers is not expected to rise much above the nearly $2.3 billion realized in 1970. Livestock receipts rose 3 percent in 1971 to nearly $3.9 billion. Crop receipts rose 4 percent to over $2.2 billion.