

Federal Reserve Bank of Dallas

# Business Review



Certificates of Deposit—  
Changes in Reserve Requirements  
Influence Volume and Maturity

August 1975

# Changes in Reserve Requirements Influence Volume and Maturity

Large negotiable certificates of deposit were first issued in significant amounts by major money market banks in 1961. Several bond houses soon developed secondary markets for CD's, making it possible for investors to sell these certificates before maturity. And large corporations began purchasing them with funds that might otherwise have been invested in Treasury bills, nonbank commercial paper, or other money market instruments.

The introduction of large CD's, therefore, resulted in a tighter linkage between the bank credit market and other credit markets and, in that sense, changed the nation's financial structure. Too, increased bank reliance on CD's as a source of funds played an integral role in the shift in emphasis in the banking industry from asset management to liability management.

To influence expansion of bank credit and growth of monetary aggregates, the Federal Reserve System has, at times, changed regulations it adopted to affect the ability of banks to compete for funds. In recent years, such as in 1966 and 1969, the Board of Governors of the Federal Reserve System used Regulation Q ceilings on interest rates on large-denomination CD's—\$100,000 or more—to slow the growth of bank credit based on these deposits.

In May 1973, however, the Board suspended interest rate ceilings on all large CD's and began using reserve requirements to influence the growth of CD's. Although reserve requirements had long been an instrument of monetary policy, their frequent

use to influence time deposit growth was new.

Reserve requirements were used for another purpose in September 1974. For the first time, change was aimed at the maturity structure—rather than the volume—of CD's.

The average maturity of large CD's had been decreasing for some time, thereby increasing liquidity pressure on banks. To counter this development, the Board lowered reserve requirements on CD's with initial maturities over 120 days. And in late November 1974, when reserve requirements on

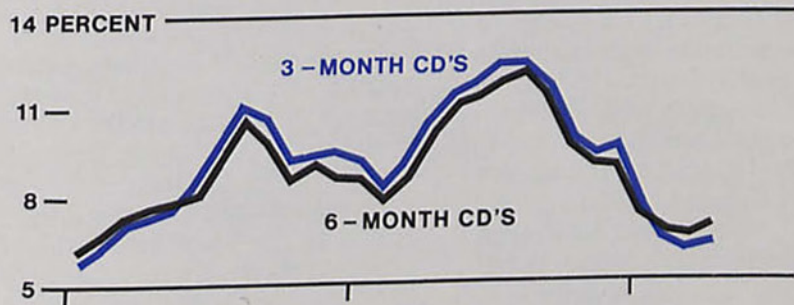
CD's were changed once more, the new requirements again reflected an attempt to induce banks to lengthen the average maturity.

### Banks rely on CD's

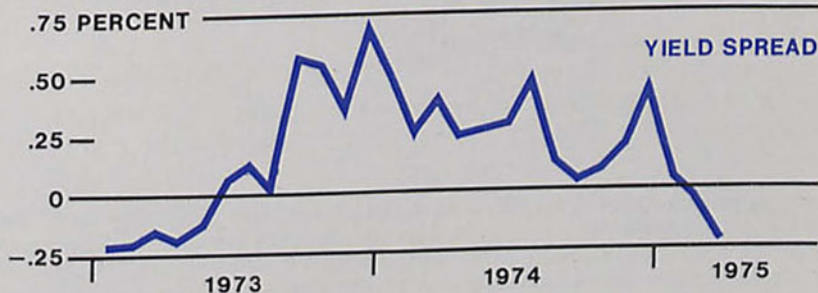
Growth in CD's was relatively stable in the 1960's, averaging \$3 billion a year. Growth was interrupted only in 1966 and 1969, when open market rates rose above interest rate ceilings on CD's and the volume of CD's outstanding declined.

Then, in the early 1970's, large commercial banks began bidding aggressively for these funds. From

Rates on 3 and 6-month CD's generally move together . . .



. . . but at times, large yield spreads develop



SOURCES: Salomon Brothers  
Federal Reserve Bank of Dallas

year-end 1971 to year-end 1974, CD's outstanding at these banks rose from \$33 billion to more than \$90 billion. Indicative of their growing importance as a source of funds, CD's increased from 11 percent to 22 percent of total deposits over the same period.

Reliance on CD's as a source of funds presents potential problems for banks. Even in periods of relative stability in money markets, the interest rate on large negotiable certificates of deposit varies much more widely than interest rates on other time deposits.

This means that heavy involvement with CD's or other purchased money creates basic managerial problems of coping with increased uncertainty and fluctuation in bank costs. Banks risk having to roll over outstanding liabilities when interest rates are high or having to carry high-cost liabilities after rates and loan demand have declined significantly.

A more serious difficulty arises when a bank that depends on CD's and other borrowings is unable to offer interest rates high enough to attract needed funds. Certificates of deposit compete with all other money market instruments for the investor's dollar. A bank's ability to pay the market rate of interest is, therefore, crucial in attracting CD's. At times, this ability to pay the market rate has been constrained, as when interest rate ceilings stipulated under Regulation Q have kept banks from bidding for CD's.

In addition, there have been situations where investors have lost confidence in particular banks, making it impossible for them to

sell CD's at any reasonable interest rate.<sup>1</sup> Loss of confidence in one bank can often spread to others, whether or not spreading is warranted. And this has usually occurred in periods of peak credit demands when banks were in greatest need of funds to loan.

In 1973, when strong demand for business loans induced banks to bid aggressively for large CD's and other money market funds, the Federal Reserve attempted to discourage excessive growth in the volume of CD's. But instead of imposing interest rate ceilings on CD's, as in the past, the Board of Governors suspended rate ceilings on CD's of \$100,000 or more. The Federal Reserve relied on increases in reserve requirements on money market instruments to slow the growth of bank liabilities, thereby permitting banks greater flexibility in making adjustments.

In June that year, the Board established an 8-percent marginal reserve requirement on increases in large CD's and bank-related commercial paper at banks that had more than \$10 million of these instruments. The change was at least partly responsible for a brief leveling off in CD's after five months of rapid growth.

Rapid expansion resumed in July, and the Board raised the marginal reserve requirement to 11 percent in September. Then, when business demand for credit moderated in December, the reserve requirement was cut back to 8 percent.

#### **Average maturity declines . . .**

When the volume of CD's began expanding rapidly in the early

1970's, the maturity structure also underwent dramatic change. The volume of short-maturity CD's increased sharply.

At the end of 1971, about 72 percent of the negotiable CD's outstanding at large commercial banks had maturities of four months or less. By the end of August 1974, just before the change in regulations made longer-maturity CD's more attractive, this proportion had increased to 88 percent.

Concentration in short-term maturities increased the exposure to potential liquidity problems. When CD's mature, the issuing bank must pay the holder the principal sum plus interest. If for some reason—such as a reimposition of interest rate ceilings or a loss of investor confidence—a bank is unable to raise funds in money markets to replace maturing CD's, a liquidity crisis develops.

Funds from loan repayments are not apt to be sufficient to pay off all the maturing CD's, and unless the inflow of other deposits is large enough to redeem the CD's outstanding, a bank has to sell investments or borrow from other sources to acquire needed funds.

The severity of potential liquidity problems created by short-maturity CD's can intensify when other bank liabilities pose a threat of a rapid loss of funds. At mid-1974, for example, all large commercial banks combined had net purchases of about \$35 billion in Federal funds. Since most purchases of Federal funds have a one-day maturity or are made on continuing contracts that can be terminated with a day's notice, these funds contribute signifi-

1. For example, in early 1974, Franklin National (a large New York City bank) reported poor operating earnings. Soon after, it reported substantial losses in its foreign exchange operations. The management of the holding company that controlled the bank—the Franklin New York Corporation—announced on May 10 that it would recommend passing the regular dividend payment on both common and preferred stock.

Substantial deposit withdrawal—including a runoff of large CD's—followed immediately. In response, the Federal Reserve announced on May 12 that it would advance funds to Franklin as needed, so long as the bank remained solvent and within the limits of the collateral it could supply. Federal Reserve lending to Franklin to help offset rapid deposit withdrawal was substantial thereafter, reaching a maximum of approximately \$1.75 billion in early October.

## Redeeming CD's can be costly

Expansion of the volume of CD's outstanding in recent years has been a key part of the shift from asset management to liability management of bank funds. When asset management was prevalent, banks' investment portfolios were designed to provide flexibility in liquidity positions. With the growth of liability management, however, divestment of securities is not a viable means by which to acquire large volumes of funds.

Selling a substantial portion of investments at one time can be very costly. Depending on conditions in secondary markets when funds are needed, banks needing to acquire funds to honor maturing CD's can be strapped with substantial losses when divesting some of their portfolio.

The average maturity of Treasury securities in bank portfolios at mid-1974 was about 2½ years. At that time—near the height of the tight money period—the market value of securities maturing in 2½ years had dropped 6 to 7 percent from market values earlier in the year. Thus, a bank forced to sell \$10 million of investments to redeem CD's because of a liquidity problem

would have lost \$600,000 to \$700,000 relative to prices available earlier in the year and again in early 1975.

Treasury securities made up about a fourth of total investment portfolios of large banks in June 1974. The obligations of states and political subdivisions were a larger proportion, and their market value had decreased about 15 percent from prices available in early 1974. Disposition of this type of investment would have produced even larger capital losses than those for the Treasury securities.

The extent to which a bank would have to divest its portfolio to redeem the CD's is considerable. At mid-1973, weekly reporting banks held Treasury and other securities totaling \$79 billion. The volume of CD's maturing in less than one month was \$25 billion, so that maturing CD's outstanding equaled 31 percent of the investment portfolio. A year later, total investments had risen to about \$84 billion while CD's maturing in one month or less were almost \$36 billion, so that maturing CD's had grown to more than 40 percent of the portfolio.

cantly to the threat of a liquidity crisis.

### ... until regulations changed

The Board of Governors reacted to the decline in the average maturity of CD's by altering reserve requirements in September 1974. The change, designed to make certificates with long maturities relatively more appealing, removed the 3-percent marginal reserve requirement on large-denomination CD's with initial maturities of four months or more. This regulatory action lowered somewhat the cost of issuing long-term CD's and, therefore, encouraged banks to lengthen maturities.

After the change, CD's with maturities of 120 days or more carried a reserve requirement of 5 percent—compared with 8 percent

for shorter-term certificates. New issues of long-term CD's, therefore, gave banks an extra 3 percent of the deposit to invest in securities or loans.

Because of this feature, banks were able to offer a higher interest rate on long-term CD's—making them more attractive to investors. Banks could increase interest rates on long-term CD's relative to shorter-term CD's without reducing their net income from loans financed by the new issues.

To illustrate, if the return on loans and investments is 12 percent, a 3-percent reduction in reserve requirements would normally allow an increase of 36 basis points (100 basis points equal 1 percent) in the rate offered on long-term CD's relative to shorter-term certificates. A relative change

of about this magnitude actually took place in CD interest rates after September 1974.

### Interest rates change

Expectations of changes in interest rates affect the willingness of borrowers and investors to make long-term commitments. For example, if conditions change so that CD rates are expected to decline, investors attempt to lock in high interest rates and demand for long-term CD's increases.

Banks, on the other hand, become less willing to contract for high-cost long-term deposits. Both of these reactions tend to decrease interest rates on long-term CD's relative to shorter maturities.

There is considerable recent evidence on these relationships. When interest rates began declining in

## Interest rates on CD's

The following simplified model isolates important factors in determining the interest rate banks will pay on CD's.

The volume of funds a bank can invest after issuing a certificate of deposit is equal to  $D \times (1 - R)$ , where  $D$  is the original deposit and  $R$  is the proportion of required reserves. With a reserve requirement of 8 percent, therefore, a deposit of \$100,000 provides a bank with \$92,000 for investment—\$100,000  $\times$  (1 - .08).

Income generated by CD's can be represented as the amount invested by the bank times the average return on investment— $i$ . And the cost of funds to the bank is the original deposit times the rate paid on deposits— $D \times r$ .

Net income generated by issuing a new CD, then, can be viewed as income minus expenses:

$$(1) \quad N = D(1 - R)i - Dr$$

Because it increases net income, a reduction in  $R$  provides incentive for banks to increase  $r$  to attract the deposits to which

the smaller reserve requirement applies. This incentive exists until all the increase in income is passed on in the form of higher return. In other words, competition among banks might result in just enough increase in  $r$  to leave net income from that maturity unchanged.

The change in the rate offered on deposits in this case can be found by solving for the change in  $r$ , given some change in  $R$  and assuming the income and the return to investment remain unchanged. Rewriting (1) gives:

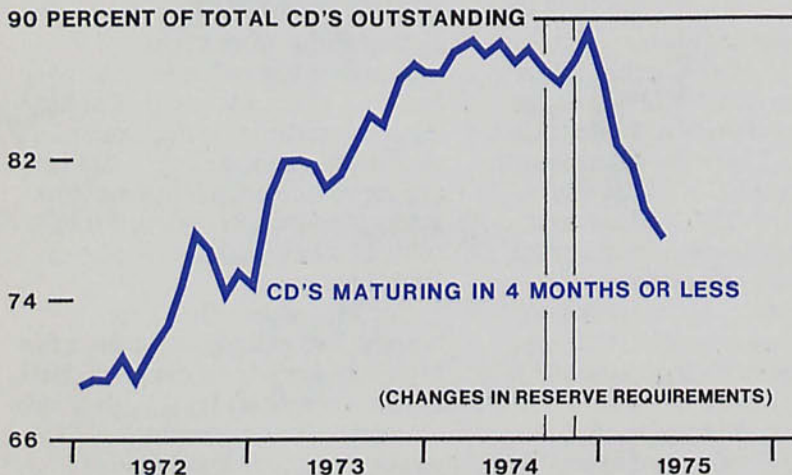
$$(2) \quad r = (1 - R)i - \frac{N}{D}$$

and differentiating (2) with respect to the reserve requirement  $R$  gives:

$$(3) \quad \Delta r = -i\Delta R$$

Thus, the change in the interest rate banks will be willing to pay on CD's is equal and opposite to the change in the reserve requirement times the average return on investment.

### Regulation changes in late 1974 helped stop trend toward short-term CD's . . .



SOURCE: Board of Governors, Federal Reserve System

August 1973, expectations of further declines contributed to a sharp widening in the spread between rates offered on 3-month and 6-month certificates of deposit.

For the three months before their August peaks, short-term rates were, on average, less than 10 basis points above longer-term rates. But after the decline began, the spread widened to more than 50 basis points as banks and investors reacted to expectations of future interest rate declines.

A similar pattern developed in July 1974. After reaching historic highs, interest rates began showing signs of weakening. The spread between rates on 3-month and 6-month CD's widened to 50 basis points—after averaging about 25 basis points in the previous three months.

But after interest rates fell sharply in September, the yield spread failed to widen—partly because of the change in marginal reserve requirements on longer-maturity CD's. Competition among banks for long-term CD's with lower reserve requirements kept rates on those instruments high relative to those on shorter-term CD's. Except for a seasonal change at year-end—when many banks bid for deposits to replace nondeposit borrowings before year-end statement dates—the yield spread between 3-month and 6-month CD's remained narrow, by historical standards, throughout the period of rate decline.

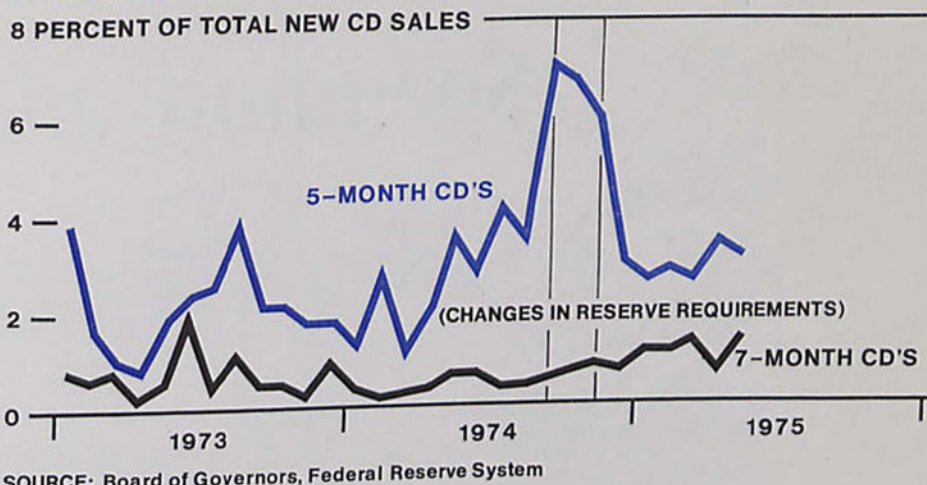
The effects of the reserve requirement change on the maturity structure of CD's also seemed to be felt immediately. In 1974, the proportion of CD's maturing in less than four months dropped from 88.4 percent at the end of August to 87.1 a month later.

After seasonal credit demand prompted banks to rely on short-term CD's late in 1974, the proportion began decreasing again. By the end of March 1975, it had fallen to 81.5 percent.

The trend showed up more conspicuously in the figures for sales. Before reserve requirements were changed, sales of CD's maturing in five months averaged about 3.5 percent of total new CD sales. But in September and October 1974, sales of five-month CD's doubled to 7 percent of new sales. Similar increases occurred in sales of longer-maturity CD's.

Reserve requirements were changed again in late November. This time, CD's with maturities over six months were given a lower reserve requirement—3 percent,

... and helped spur sales of longer maturities



compared with 6 percent on short-term maturities.

Again, effects were immediately apparent. In December, only 4 percent of large CD's had maturities beyond six months. But at the end of January, the proportion had increased to 5.8 percent, and in February, it reached 8.1 percent.

After regulation changes in September and late November last year, the average maturity of negotiable CD's outstanding at weekly reporting banks increased for the first time in over three years. The average maturity had declined from about 3.4 months in early 1972 to 2.1 at year-end 1973 and, then, remained relatively stable before increasing last September. The average maturity dropped back at year-end 1974 but rose in January and February, reaching 2.3 months by the end of February.

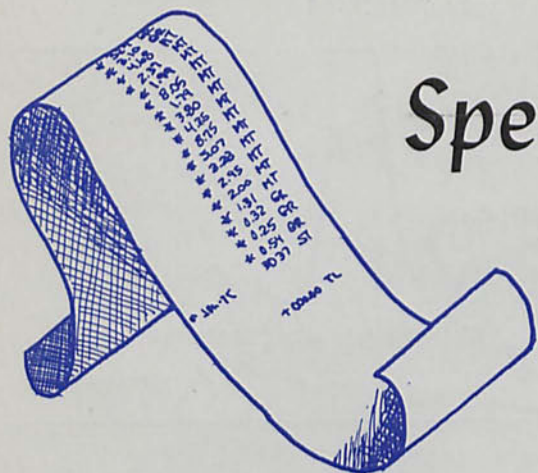
Because of distortions caused by Regulation Q ceilings, a "normal" pattern of CD maturity response to cyclical fluctuations in interest rates is difficult to discern. How-

ever, from August 1973 through February 1974, when the CD market was free of such distortions and interest rates were declining, the average maturity of CD's decreased. This suggests that increases in average maturities in late 1974 and in early 1975, when interest rates were again declining, would not have occurred without changes in marginal reserve requirements.

—Clifford L. Fry\*  
Edward E. Veazey

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# Spending on Meat Slows



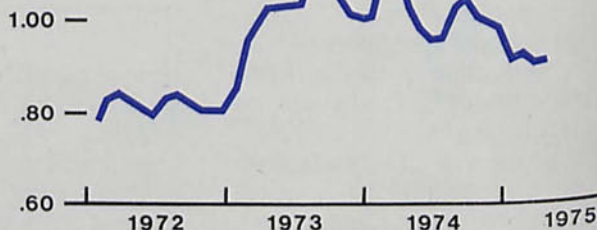
### Hamburger

1.20 DOLLARS PER POUND



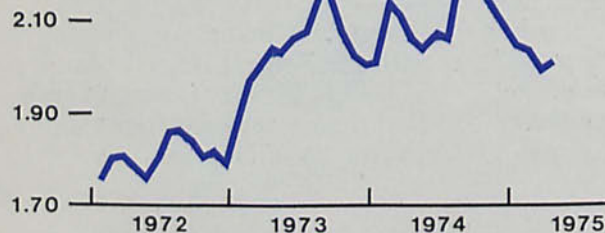
### Chuck Roast

1.20 DOLLARS PER POUND



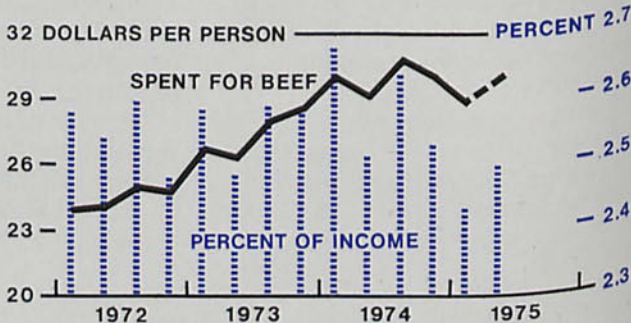
### Porterhouse

2.30 DOLLARS PER POUND



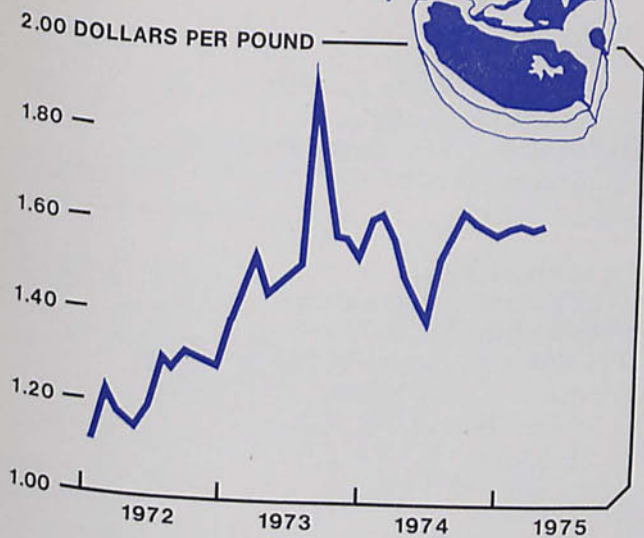
Consumers spent a smaller proportion of their take-home pay on beef and pork in the first half of this year than in the same period last year. With beef prices lower, consumers increased their purchases. But as incomes also increased, the proportion of income going for beef fell.

Part of the decline was the result of choices consumers can make between cuts of beef. Hamburger and most roasts, for example, usually

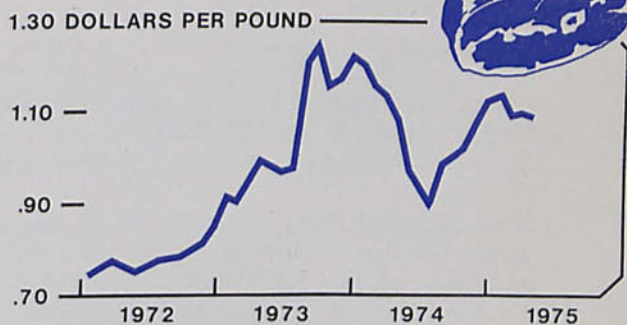


SOURCE: U.S. Department of Agriculture

### Pork Chop

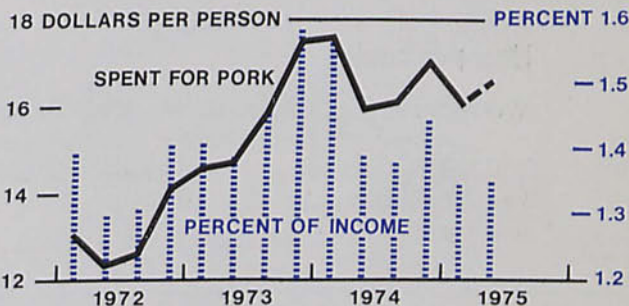


### Ham



cost only about half as much as steak. And with more grass-fed beef being marketed this year, the difference in hamburger and steak prices has become even more significant.

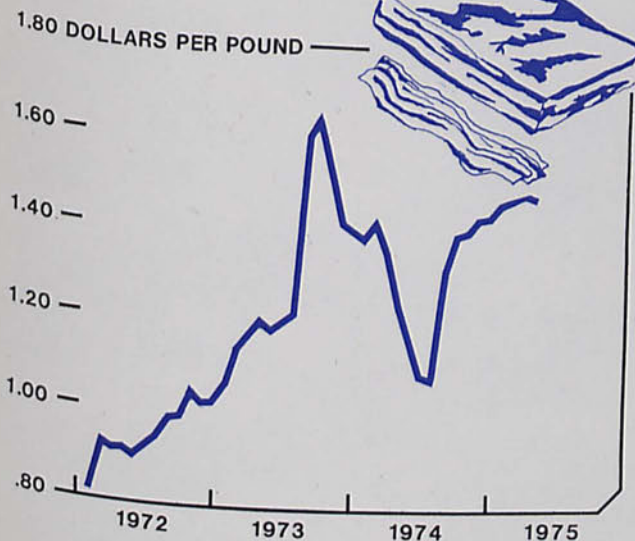
This is in contrast to pork prices, which tend to be much closer, regardless of cut. Since prices of ham, bacon, and pork chops tend to rise and fall



together, the proportion of income spent on pork is closely connected to pork prices.

The net effect has been that even though beef and pork prices made sharp swings over the past two years, total spending on red meat has continued to trend upward. The trend slowed in 1974. But with the rise in beef prices this spring, the increase in consumer spending for meat is likely to resume.

### Bacon



SOURCE: U.S. Department of Agriculture



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### **New member banks**

New Braunfels National Bank, New Braunfels, Texas, a newly organized institution located in the territory served by the San Antonio Branch of the Federal Reserve Bank of Dallas, opened for business July 28, 1975, as a member of the Federal Reserve System. The new member bank opened with capital of \$480,000, surplus of \$480,000, and undivided profits of \$240,000. The officers are: Herbert R. Schneider, Chairman of the Board; Bill W. Davis, President; and Tilmon L. Walker, Vice President and Cashier.

First National Bank in Kaufman, Kaufman, Texas, a newly organized institution located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, opened for business July 30, 1975, as a member of the Federal Reserve System. The new member bank opened with capital of \$300,000, surplus of \$300,000, and undivided profits of \$150,000. The officers are: E. C. Talbert, Chairman of the Board; Eddie Garrison, President; and Joe Riley Jones, Vice President and Cashier.

### **New par bank**

Western Bank of Clovis, Clovis, New Mexico, a newly organized insured nonmember bank located in the territory served by the El Paso Branch of the Federal Reserve Bank of Dallas, opened for business July 7, 1975, remitting at par. The officers are: Eddie Pullman, President, and R. D. Skelton, Vice President and Cashier.

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**Federal Reserve Bank of Dallas**  
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# Federal Reserve Bank of Dallas

August 1975

## Statistical Supplement to the Business Review

After declining seven months, chemical production in Texas turned upward in June. Output by the state's biggest industry rose 1.1 percent, the first month-to-month increase since October.

The downturn began after user industries had made large purchases of chemicals to hedge against possible shortages and, finding themselves overstocked, stopped placing orders. The decline was further aggravated when principal markets—the construction, automobile, and nondurable goods industries—fell deeply into recession.

But large inventories have been liquidated, and users are beginning to replenish stocks. This firming in demand is spurring renewed output.

The decline in chemical production was a major factor in the November-May decrease in the Texas industrial production index because the chemical industry accounts for a fifth of the state's output. After peaking in October, output of chemicals had dropped nearly 25 percent by May.

Increased chemical output is not likely to be hampered by shortages or production bottlenecks since basic and intermediate products are readily available and the industry is operating at about 70-percent capacity. Cost pressures, however, continue to mount.

Prices of feedstocks—many of which are petroleum-based—remain high, as do the fixed costs of maintaining underused plant capacity. And union workers won a substantial wage increase early this year.

Despite the sharp decline in output, prices for most chemical products have changed little. For some specialty products, however, prices in spot markets have increased recently.

The improvement in general business conditions has brightened the outlook for the industry. But most chemical producers expect a slow, steady recovery in demand.

Member banks in the Eleventh District increased their net income 19.4 percent in 1974 to \$361.2 million. The increase followed a 14.6-percent gain in 1973 and stemmed primarily from higher rates of return on earning assets, as the volume of nearly all interest-earning assets was less than a year before.

Total operating income of the banks, which increased 33.2 percent in 1973, was up 27.3 percent in 1974. The slower rate of gain reflected a considerably smaller increase in bank credit outstanding. Higher rates of interest, however, led to the sharp rise in rates of return on earning assets. The average rate of return on loans, for example, rose from 8.4 percent in 1973 to 10.1 percent last year.

Total investments rose less than in 1973. And even with the higher rates of return, the gain in income from security holdings lagged a year before. On balance, income from investments as a percentage of total revenue continued to decrease in 1974.

Operating expenses rose sharply again in 1974. But while costs increased in all major categories, only in one—occupancy expense—was the rise faster than in 1973.

Interest paid on time and savings deposits and borrowings continued to be the primary cost for the banks, accounting for 62.4 percent of total operating expenses. Interest paid on time and savings deposits averaged 7.2 percent, up from 5.9 percent in 1973. And since time and savings deposits accounted for a

larger proportion of total deposits last year, interest costs increased further.

Salaries, wages, and personnel benefits also were up substantially in 1974. But with the steep hike in interest costs, they accounted for a smaller proportion of total operating expenses.

The cattle feeding industry in states of the Eleventh District appears to be recovering from its depressed level of the past year. The number of placements in the second quarter was 26 percent higher than a year earlier—reflecting an upturn in prices for fed cattle this spring. That was the first quarter-to-quarter gain in two years.

In 1974, fed cattle prices dropped sharply and feed costs soared, resulting in large financial losses and forcing many feeders out of the industry. Consequently, the number of cattle on feed dropped substantially, hitting the lowest level since 1968 in the first half of this year.

The cost-price squeeze produced changes in the industry, but experienced cattlemen have been able to maintain cattle operations despite unfavorable market conditions. By cutting nonfeed costs, operators of well-managed feedlots with established facilities have continued to feed cattle—even though occupancy rates have, at times, been well below 50 percent.

Cattlemen have adjusted to market conditions by placing larger and older cattle on feed. By grazing cattle on forage before placing them in feedlots, cattlemen have reduced finishing costs.

Credit for cattlemen is available and is usually extended on a 30-per-  
*(Continued on back page)*

## CONDITION STATISTICS OF WEEKLY REPORTING COMMERCIAL BANKS

### Eleventh Federal Reserve District

(Thousand dollars)

ASSETS	July 23, 1975	June 18, 1975	July 17, 1974	LIABILITIES	July 23, 1975	June 18, 1975	July 17, 1974
Federal funds sold and securities purchased under agreements to resell	1,540,813	1,559,174	1,165,818	Total deposits	16,287,854	16,231,460	14,801,799
Other loans and discounts, gross	10,490,936	10,450,045	10,599,229	Total demand deposits	7,525,043	7,628,346	7,159,269
Commercial and industrial loans	5,034,136	5,018,132	4,789,024	Individuals, partnerships, and corporations	5,578,873	5,533,835	5,228,419
Agricultural loans, excluding CCC certificates of interest	191,666	185,575	261,307	States and political subdivisions	508,953	380,296	502,435
Loans to brokers and dealers for purchasing or carrying:				U.S. Government	56,173	262,491	64,269
U.S. Government securities	200	1,222	1,260	Banks in the United States	1,206,802	1,280,598	1,183,322
Other securities	31,727	23,332	38,803	Foreign:			
Other loans for purchasing or carrying:				Governments, official institutions, central banks, and international institutions	2,682	3,612	3,762
U.S. Government securities	1,077	2,023	3,467	Commercial banks	71,890	54,861	71,609
Other securities	370,980	380,454	443,580	Certified and officers' checks, etc.	99,670	112,653	105,451
Loans to nonbank financial institutions:				Total time and savings deposits	8,762,811	8,603,114	7,642,530
Sales finance, personal finance, factors, and other business credit companies	175,810	164,997	166,580	Individuals, partnerships, and corporations:			
Other	537,953	581,738	769,683	Savings deposits	1,370,814	1,342,203	1,150,763
Real estate loans	1,512,011	1,501,380	1,547,532	Other time deposits	4,675,238	4,582,817	4,247,675
Loans to domestic commercial banks	62,237	64,651	61,467	States and political subdivisions	2,301,585	2,275,037	2,118,799
Loans to foreign banks	88,608	86,180	79,472	U.S. Government (including postal savings)	35,552	9,630	10,534
Consumer installment loans	1,109,860	1,110,718	1,069,424	Banks in the United States	353,826	366,180	89,411
Loans to foreign governments, official institutions, central banks, and international institutions	1,958	0	17	Foreign:			
Other loans	1,372,713	1,329,643	1,367,613	Governments, official institutions, central banks, and international institutions	23,194	23,240	12,861
Total investments	4,919,481	5,035,123	4,226,819	Commercial banks	2,602	4,007	12,487
Total U.S. Government securities	1,481,053	1,393,359	914,401	Federal funds purchased and securities sold under agreements to repurchase	2,675,597	2,925,722	3,100,418
Treasury bills	306,948	269,433	80,860	Other liabilities for borrowed money	45,006	54,199	168,856
Treasury certificates of indebtedness	0	0	0	Other liabilities	639,340	633,455	548,560
Treasury notes and U.S. Government bonds maturing:				Reserves on loans	203,031	202,566	181,987
Within 1 year	225,960	221,202	127,136	Reserves on securities	23,159	22,165	20,399
1 year to 5 years	800,998	757,047	532,605	Total capital accounts	1,493,797	1,484,563	1,346,807
After 5 years	147,147	145,677	173,800				
Obligations of states and political subdivisions:				TOTAL LIABILITIES, RESERVES, AND CAPITAL ACCOUNTS	21,367,784	21,554,130	20,168,826
Tax warrants and short-term notes and bills	172,770	105,948	221,597				
All other	2,965,639	3,202,443	2,792,140				
Other bonds, corporate stocks, and securities:							
Certificates representing participations in federal agency loans	11,485	12,420	9,430				
All other (including corporate stocks)	288,534	320,953	289,251				
Cash items in process of collection	1,467,528	1,493,004	1,538,242				
Reserves with Federal Reserve Bank	1,107,618	1,236,541	1,168,994				
Currency and coin	139,864	131,110	133,177				
Balances with banks in the United States	505,265	604,511	453,982				
Balances with banks in foreign countries	92,567	53,201	32,421				
Other assets (including investments in subsidiaries not consolidated)	1,103,712	991,421	850,144				
TOTAL ASSETS	21,367,784	21,554,130	20,168,826				

## DEMAND AND TIME DEPOSITS OF MEMBER BANKS

### Eleventh Federal Reserve District

(Averages of daily figures. Million dollars)

Date	DEMAND DEPOSITS			TIME DEPOSITS	
	Total	Adjusted <sup>1</sup>	U.S. Government	Total	Savings
1973: June	13,218	9,551	279	13,374	2,884
1974: June	13,742	10,030	240	15,333	2,979
July	13,809	10,056	212	15,442	2,983
August	13,634	9,988	175	15,509	2,956
September	13,740	9,973	222	15,586	2,952
October	13,687	9,976	149	15,714	2,977
November	13,843	10,148	138	16,016	3,009
December	14,351	10,355	208	16,177	3,079
1975: January	14,180	10,353	166	16,842	3,124
February	13,956	10,245	150	17,052	3,226
March	14,114	10,349	165	17,177	3,325
April	14,247	10,572	213	17,196	3,325
May	14,106	10,374	195	17,303	3,348
June	14,344	10,535	198	17,270	3,410

1. Other than those of U.S. Government and domestic commercial banks, less cash items in process of collection

## CONDITION STATISTICS OF ALL MEMBER BANKS

### Eleventh Federal Reserve District

(Million dollars)

Item	July 2, 1975	June 4, 1975	June 26, 1974
ASSETS			
Loans and discounts, gross	22,215	22,040	20,817
U.S. Government obligations	2,642	2,586	2,154
Other securities	7,345	7,325	6,813
Reserves with Federal Reserve Bank	1,676	1,588	1,613
Cash in vault	344	324	380
Balances with banks in the United States	1,565	1,535	1,254
Balances with banks in foreign countries <sup>e</sup>	85	50	46
Cash items in process of collection	2,083	1,859	1,767
Other assets <sup>e</sup>	1,910	1,941	1,576
TOTAL ASSETS <sup>e</sup>	39,865	39,248	36,420
LIABILITIES AND CAPITAL ACCOUNTS			
Demand deposits of banks	1,973	1,935	1,655
Other demand deposits	13,023	12,478	11,948
Time deposits	17,188	17,347	15,384
Total deposits	32,184	31,760	28,987
Borrowings	3,278	2,974	3,329
Other liabilities <sup>e</sup>	1,686	1,801	1,541
Total capital accounts <sup>e</sup>	2,717	2,713	2,563
TOTAL LIABILITIES AND CAPITAL ACCOUNTS <sup>e</sup>	39,865	39,248	36,420

## RESERVE POSITIONS OF MEMBER BANKS

### Eleventh Federal Reserve District

(Averages of daily figures. Thousand dollars)

Item	4 weeks ended July 2, 1975	5 weeks ended June 4, 1975	4 weeks ended July 3, 1974
Total reserves held	1,997,909	1,989,038	1,999,042
With Federal Reserve Bank	1,657,702	1,655,666	1,669,427
Currency and coin	340,207	333,372	329,615
Required reserves	1,986,834	1,977,334	2,003,925
Excess reserves	11,075	11,704	-4,883
Borrowings	7,492	1,651	125,484
Free reserves	3,583	10,053	-130,367

e—Estimated

# 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 <sup>1</sup>					DEMAND DEPOSITS <sup>1</sup>			
	June 1975 (Annual-rate basis)	Percent change			June 30, 1975	Annual rate of turnover			
		June 1975 from	June 1974	6 months, 1975 from 1974		June 1975	May 1975	June 1974	
ARIZONA: Tucson	\$20,323,748	3%	34%	15%	\$413,805	51.0	52.3	41.8	
LOUISIANA: Monroe	6,019,037	6	10	9	131,095	45.5	43.5	43.4	
Shreveport	25,069,148	-6	12	18	382,622	66.8	72.8	60.3	
NEW MEXICO: Roswell <sup>2</sup>	1,607,780	-3	20	7	59,789	26.3	28.8	25.7	
TEXAS: Abilene	4,710,126	5	20	9	164,794	29.2	29.9	24.7	
Amarillo	12,185,220	6	20	-2	273,685	44.2	43.7	40.5	
Austin	23,175,769	5	24	11	527,262	47.3	53.1	39.5	
Beaumont-Port Arthur-Orange	10,829,071	4	5	5	359,104	30.6	29.8	31.8	
Brownsville-Harlingen-San Benito	4,671,964	0	7	9	141,315	33.0	34.4	34.0	
Bryan-College Station	2,074,102	7	26	11	64,065	33.2	31.8	26.3	
Corpus Christi	11,788,694	6	8	2	347,204	34.5	34.9	36.1	
Corsicana <sup>2</sup>	868,336	10	11	9	49,061	18.7	18.0	18.6	
Dallas	242,598,032	0	-6	1	3,376,260	72.7	75.0	81.4	
El Paso	16,548,604	11	13	5	366,904	46.2	44.6	44.6	
Fort Worth	41,159,141	7	10	4	994,644	41.6	40.1	41.4	
Galveston-Texas City	5,048,900	10	17	23	154,004	32.9	30.6	31.6	
Houston	256,264,108	3	10	21	4,419,126	60.1	61.6	62.2	
Killeen-Temple	2,943,518	3	20	9	134,453	22.4	22.6	20.1	
Laredo	2,204,077	10	19	12	73,070	29.8	27.4	27.8	
Lubbock	10,839,647	-4	18	-7	255,860	43.4	46.9	37.9	
McAllen-Pharr-Edinburg	5,226,738	7	31	25	190,598	28.3	27.7	25.0	
Midland	4,361,881	-2	17	28	229,437	19.4	20.4	18.2	
Odessa	3,909,512	5	45	35	139,703	27.8	27.0	23.0	
San Angelo	3,120,944	5	16	14	107,505	29.4	29.5	27.0	
San Antonio	35,111,714	5	18	12	996,828	36.3	36.1	33.5	
Sherman-Denison	1,641,762	-12	11	4	92,017	18.1	21.2	17.2	
Texarkana (Texas-Arkansas)	2,663,759	15	22	12	99,831	27.7	25.0	23.4	
Tyler	3,774,262	-2	2	12	156,443	24.7	25.8	26.0	
Waco	6,148,769	0	26	20	171,096	36.0	35.6	30.1	
Wichita Falls	5,914,039	22	22	12	196,849	30.9	26.3	27.3	
Total—30 centers	\$772,802,402	3%	7%	10%	\$15,068,429	52.5	53.6	53.7	

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

## CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(Thousand dollars)

Item	July 30, 1975	July 31, 1974	June 25, 1975
Total gold certificate reserves	422,062	379,561	422,062
Loans to member banks	3,489	185,663	30,340
Other loans	0	0	0
Federal agency obligations	259,867	154,313	259,945
U.S. Government securities	4,193,398	3,362,347	4,276,461
Total earning assets	4,456,754	3,702,323	4,566,746
Member bank reserve deposits	1,705,342	1,477,395	1,642,521
Federal reserve notes in actual circulation	2,803,488	2,541,167	2,742,670

## BUILDING PERMITS

Area	VALUATION (Dollar amounts in thousands)							
	NUMBER				Percent change			
	June 1975	6 mos. 1975	June 1975	6 mos. 1975	May 1975	June 1974	6 months, 1975 from 1974	
ARIZONA								
Tucson	581	3,051	\$6,331	\$49,860	0%	2%	5%	
LOUISIANA								
Monroe	85	436	1,442	7,491	57	47	-13	
West Monroe	1,117	4,243	6,462	30,794	17	-56	-43	
Shreveport								
TEXAS								
Abilene	138	632	2,085	15,376	9	136	119	
Amarillo	342	1,643	5,411	28,061	-17	-7	-9	
Austin	542	2,701	15,494	68,793	34	-68	-53	
Beaumont	248	1,277	3,019	18,260	-40	138	-30	
Brownsville	132	712	1,706	6,484	-8	-59	-61	
Corpus Christi	284	1,495	4,436	32,316	21	105	-5	
Dallas	1,725	9,888	12,069	117,258	-15	-72	-41	
Denison	31	237	212	1,476	-52	-27	31	
Laredo	550	2,766	11,028	64,865	28	8	-36	
Fort Worth	421	2,214	12,599	73,228	2	80	-22	
Galveston	52	286	725	3,014	73	16	-92	
Houston	2,099	11,223	65,915	284,615	127	102	-20	
Lubbock	90	369	3,126	6,767	744	1,367	156	
Midland	226	979	5,622	68,376	-16	-35	-5	
Odessa	136	689	2,853	12,153	104	-26	-42	
Port Arthur	77	671	1,622	11,714	-44	-24	1	
San Angelo	167	581	882	2,387	130	764	95	
San Antonio	122	445	2,230	8,460	19	-52	-9	
Sherman	1,560	8,537	8,883	67,706	-57	-56	-43	
Texarkana	35	187	436	2,727	52	90	-23	
Tyler	91	379	746	2,925	116	-61	-39	
Waco	241	1,279	1,075	7,725	-38	-68	-65	
Wichita Falls	93	532	1,434	8,389	94	88	5	
Total—26 cities	11,185	57,452	\$177,843	\$1,001,220	22%	-20%	-30%	

## VALUE OF CONSTRUCTION CONTRACTS

(Million dollars)

Area and type	January—June				
	June 1975	May 1975	Apr. 1975	1975	1974r
FIVE SOUTHWESTERN STATES					
Residential building	825	1,691	1,724	6,797	5,826
Nonresidential building	359	366	410	1,941	2,378
Nonbuilding construction	257	618	596	2,726	2,226
Residential building	210	707	718	2,130	1,222
Nonresidential building	9,324	9,143	9,598	44,393	46,327
Nonbuilding construction	3,116	3,073	3,029	14,623	19,013
Residential building	3,169	2,877	2,987	15,684	15,951
Nonbuilding construction	3,040	3,193	3,582	14,068	11,363

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

## DAILY AVERAGE PRODUCTION OF CRUDE OIL

(Thousand barrels)

Area	June 1975	May 1975	June 1974r	Percent change from	
				May 1975	June 1974
<b>FOUR SOUTHWESTERN STATES</b>					
STATES	5,823.2	5,902.1	5,362.7	-1.3%	-8.5%
Louisiana	1,794.7	1,840.5	2,009.8	-2.5	-10.7
New Mexico	256.0	256.3	272.1	-1	-5.9
Oklahoma	448.8	448.9	490.5	0	-8.5
Texas	3,323.7	3,356.4	3,454.6	-1.0	-3.8
Gulf Coast	640.8	649.8	679.0	-1.4	-5.6
West Texas	1,788.1	1,798.6	1,821.6	-6	-1.8
East Texas (proper)	218.6	214.9	199.5	1.7	9.6
Panhandle	55.6	57.9	58.6	-4.0	-5.1
Rest of state	620.6	635.2	695.9	-2.3	-10.8
<b>UNITED STATES</b>	<b>8,371.5</b>	<b>8,422.1</b>	<b>8,777.0</b>	<b>-6%</b>	<b>-4.6%</b>

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

## INDUSTRIAL PRODUCTION

(Seasonally adjusted indexes, 1967 = 100)

Area and type of index	June 1975p	May 1975	Apr. 1975	June 1974
<b>TEXAS</b>				
Total industrial production	134.1	133.2	133.4r	140.8
Manufacturing	138.9	137.5	138.2r	147.5
Durable	159.5	158.7	158.3	162.2
Nondurable	124.2	122.2	123.7r	136.9
Mining	113.7	113.1	113.0r	118.6
Utilities	167.3	170.0	166.0r	162.4
<b>UNITED STATES</b>				
Total industrial production	110.0	109.6	109.9r	125.8
Manufacturing	107.8	107.4	107.7r	125.6r
Durable	101.7	102.0	103.1r	122.1r
Nondurable	116.6	115.3	114.3r	130.7r
Mining	107.4	107.7	108.5r	110.2r
Utilities	153.9	151.7	153.0r	150.6r

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

cent equity margin. That is, lenders provide 70 percent of the costs for feeder calves and feed, and borrowers provide 30 percent.

To reduce the risk associated with fluctuations in prices for cattle and grain, many feeders have developed expertise in using commodity futures to hedge the costs of feeding cattle. On balance, the cattle feeding industry has undergone dramatic but economically sound changes. As inexperienced investors have withdrawn from the industry, a more experienced and cautious cattle feeder has emerged.

Other highlights:

- Significant acquisitions of Treasury bills and intermediate-term Treasury notes and bonds continued to highlight Eleventh District banking in the five weeks ended July 23. For the ninth consecutive month, holdings of Government securities rose more than the average increase for comparable periods of the past five years.
- The unemployment rate in the five southwestern states fell to 6.9 percent in June, down from 7.4 percent a month before. The decline largely resulted from a drop in the

## LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Five Southwestern States<sup>1</sup>

(Seasonally adjusted)

Item	Thousands of persons			Percent change June 1975 from	
	June 1975p	May 1975	June 1974r	May 1975	June 1974
Civilian labor force	9,157.6	9,211.9	8,939.6	-0.6%	2.4%
Total employment	8,524.0	8,527.1	8,509.2	0	47.2
Total unemployment	633.6	684.8	430.4	-7.5	2.1
Unemployment rate	6.9%	7.4%	4.8%	2.5	5
Total nonagricultural wage and salary employment	7,503.2	7,538.1	7,465.6	-5	5
Manufacturing	1,235.0	1,243.4	1,312.7	-7	-5.9
Durable	691.5	696.2	741.9	-7	-6.8
Nondurable	543.5	547.1	570.8	-7	-4.8
Nonmanufacturing	6,268.2	6,294.7	6,152.9	-4	1.9
Mining	266.5	267.3	260.1	-3	2.5
Construction	462.4	479.5	503.9	-3.6	-8.2
Transportation and public utilities	500.9	502.1	519.8	-2	-3.6
Trade	1,807.7	1,806.6	1,766.6	1	2.3
Finance	416.2	417.7	406.3	-4	2.4
Service	1,296.0	1,295.3	1,231.5	-1	5.2
Government	1,518.4	1,526.3	1,464.7	-5%	3.7%

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)

## WINTER WHEAT

Area	ACREAGE (Thousand acres)			PRODUCTION (Thousand bushels)		
	For harvest		Harvested	Crop of 1975 <sup>1</sup>		Crop of 1973
	Crop of 1975	Crop of 1974	Crop of 1973	Crop of 1975 <sup>1</sup>	Crop of 1974	Crop of 1973
Arizona	310	235	216	22,320	15,510	15,120
Louisiana	25	30	18	400	600	396
New Mexico	382	162	289	10,314	2,835	8,526
Oklahoma	6,750	6,400	5,260	162,000	134,400	157,800
Texas	5,500	3,300	3,400	132,000	52,800	98,600
Total	12,967	10,127	9,183	327,034	206,145	280,442

1. Indicated July 1  
 SOURCE: U.S. Department of Agriculture

civilian labor force. Total nonagricultural employment was off, as a slight rise in the number of workers in trade and service industries was more than offset by decreases in all other job categories.

• New car sales in Texas picked up in June, as seasonally adjusted registrations in the four largest metropolitan counties in the state were 14 percent higher than in May. By contrast, seasonally adjusted department store sales in the Eleventh District declined slightly from mid-June to mid-July, the first decrease this year.