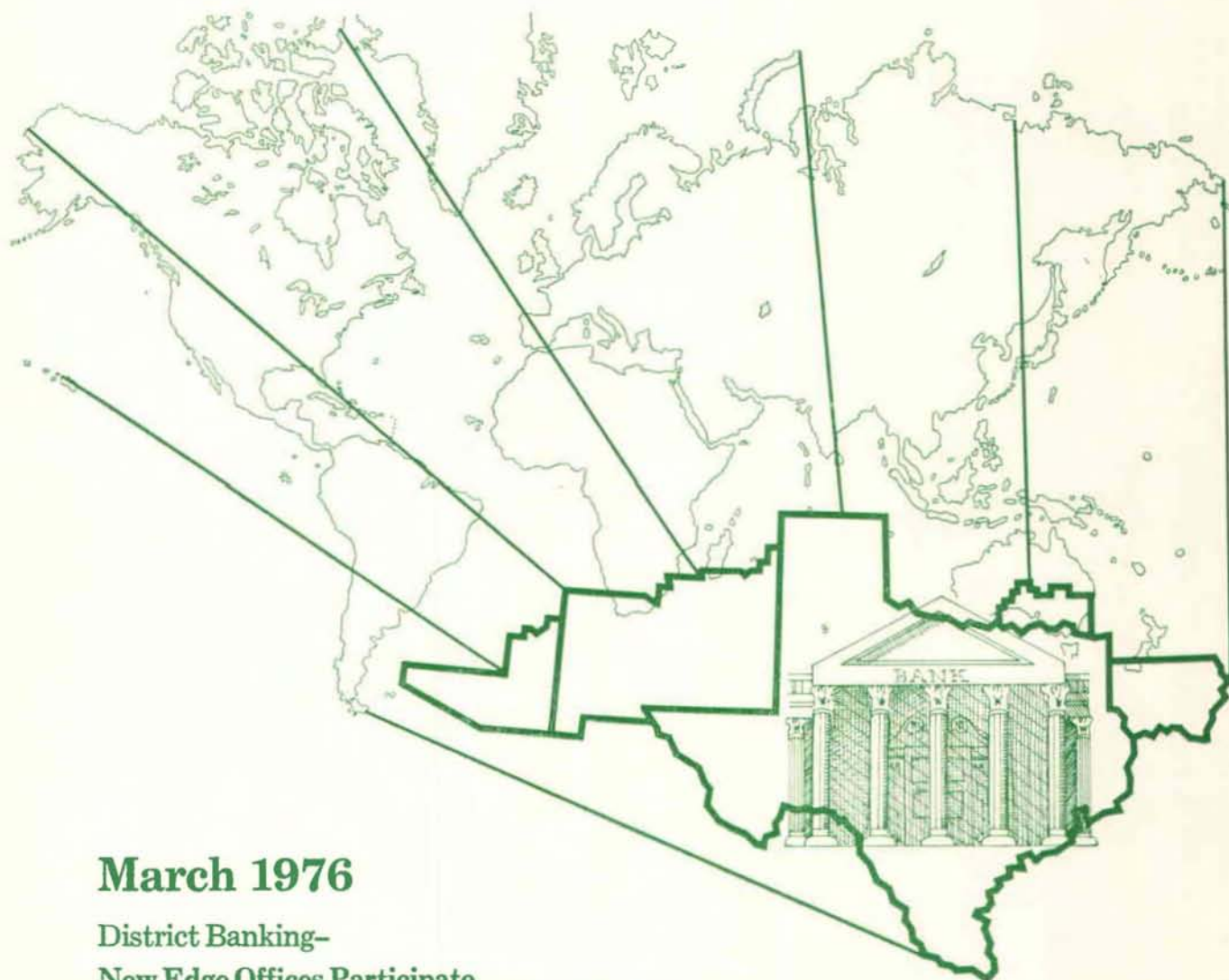


Federal Reserve Bank of Dallas

Business Review



March 1976

District Banking—

**New Edge Offices Participate
In Expanding International Banking Market**

Review of 1975

Treasury Cash Balances—

**New Policy Prompts Increased
Defensive Operations by Federal Reserve**

New Edge Offices Participate In Expanding International Banking Market

Since early 1972, six of the country's eight largest banks—headquartered in New York, Chicago, or San Francisco—have opened Edge Act corporation offices in Houston. And the other two have plans to do so.

Together with the mounting presence of foreign banks in Houston and the sharp expansion of international departments in local banks there, the Edge movement attests to the increasing importance in world commerce of the economy of the Eleventh Federal Reserve District. And it reflects the emergence of Houston as a center for international bank credit and services.

Legal framework

The origins of Edge Act corporations go back 60 years to when Congress sought to stimulate U.S. foreign trade by enabling domestic banks to play a larger role in international finance. In 1916, Congress amended Section 25 of the Federal Reserve Act to permit national banks to form corporations principally engaged in international or foreign banking.

Under this amendment, owner banks are required to have at least \$1 million in capital and surplus, with no more than 10 percent of that total invested in the stock of such corporations. And before any stock can be purchased, the organizers have to have an agreement with the Board of Governors of the Federal Reserve System as to the conditions under which the corporation will operate. Corporations organized under Section 25, therefore, are called *Agreement corporations*.

There are no Agreement corporations active in the Eleventh District at this time. But on January 26 this year, the Board of Governors approved an application by the Bank of Tokyo, a Japanese bank that is a registered bank holding company in the United States, to operate one in Houston.

Because the 1916 amendment did not provide a means for federal charters to be granted, all Agreement corporations have state charters. But in 1919, Congress added Section 25(a), which empowers the Board of Governors of the Federal Reserve System

to charter corporations for the purpose of engaging in international or foreign banking or other financial operations. These corporations are called *Edge corporations* after Senator Walter Edge, sponsor of the legislation.

Section 25(a) of the Federal Reserve Act permits out-of-state banks to operate Edge Act subsidiaries in Texas, provided their activities are clearly related to international or foreign business.

Because of their special purpose, Edge corporations operate under somewhat different restrictions than commercial banks. For example, existing provisions of state and federal law prohibit banks from having branch offices in Texas. But Section 25(a) permits out-of-state banks to operate Edge Act subsidiaries in Texas, provided their activities are clearly related to international or foreign business. Edge Act corporations can receive demand and time

EDGE ACT CORPORATIONS IN ELEVENTH FEDERAL RESERVE DISTRICT, DECEMBER 31, 1975

Name	Location	Approved by Board of Governors	Commenced business
Republic International Company ¹	Dallas	May 29, 1968	May 31, 1968
First Dallas International Banking Corporation ¹	Dallas	January 9, 1969	February 3, 1969
First National City Bank (International-Houston)	Houston	February 7, 1972	March 1, 1972
Bank of America International of Texas	Houston	February 3, 1972	March 24, 1972
First City International Corporation of Texas ¹	Houston	January 5, 1973	July 27, 1973
Morgan Guaranty International Bank of Houston	Houston	January 21, 1974	April 10, 1974
Continental Bank International (Texas)	Houston	January 21, 1974	April 15, 1974
Bankers Trust International (Southwest) Corporation ...	Houston	June 7, 1974	June 10, 1974
Chase Bank International-Houston	Houston	May 10, 1974	September 26, 1974

1. Not engaged in banking as defined by Federal Reserve Regulation K

deposits, but not passbook savings deposits, so long as the deposits are incidental to international or foreign transactions. Reserves against such deposits cannot total less than 10 percent.

A corporation having aggregate demand deposits and acceptance liabilities in excess of its capital and surplus—called a *banking Edge*—must limit the amount of credit granted to any customer to 10 percent of its capital and surplus. Otherwise, a corporation is an *investment Edge* and can lend a single customer as much as 50 percent of its capital and surplus.

At mid-1975, 113 corporations organized under Section 25(a) of the Federal Reserve Act were operating in the United States. By contrast, there were only four Agreement corporations. The six non-Texas banks with Edge offices in Houston had 23 other Edge subsidiaries in New York, Chicago, Los Angeles, Miami, San Francisco, and Portland.

Three banks in the Eleventh District—two in Dallas and one in Houston—own nonbanking Edge subsidiaries for holding their overseas investments. Although two of the three preceded the Edge banks having out-of-state owners, the combined assets of locally owned Edges amount to only 5 percent of total assets held by all Edges in the District.

Establishment of Edge offices

In recent years, the economy of the Eleventh District has rapidly expanded into world markets. For example, from 1969 to 1974, the value of exports and imports for the Houston customs region—an area composed of Texas, New Mexico, Oklahoma, Colorado, and a small part of Louisiana—rose from \$4.7 billion to \$19.3 billion, or 311 percent. And the share of total U.S. foreign trade accounted for by the Houston customs region

climbed from over 6 percent to almost 10 percent.

The sharp run-up in global petroleum prices over the past two years has put heavy demands on the Texas Gulf Coast for petroleum products and oil production technology and know-how and has been a particularly important factor leading to an increase in the demand for credit and services integral to international transactions. Recognizing the strong profit opportunities developing around Houston, the country's largest multinational banks have set up Edge Act offices there. They were particularly encouraged to do so because many of their major customers with southwestern subsidiaries had expanded operations or relocated corporate headquarters in the Houston area.

Scope of Edge activities

Edge corporations found new business from the many small but rapidly growing companies—especially petroleum-related firms—located in the booming Houston area. Thrust into the world of international trade, many of these companies did not know how to collect or transmit funds overseas or lacked expertise about letters of credit. Others needed advice on

submitting complex bids for contracts overseas or help in checking on the creditworthiness of foreign customers and the stability of foreign currencies.

By using the parent bank's extensive network of foreign branch offices, an Edge bank in Houston can collect or transfer funds around the world and can provide on-site representation and information for its client.

The new Edge offices offered the resources to serve the needs of companies entering international markets. By using the parent bank's extensive network of foreign branch offices, an Edge bank in Houston could easily collect or transfer funds around the world and could provide on-site representation and information for its client. And each Edge bank could also rely on the home office for financial and economic expertise in analyzing complex overseas transactions and for the overline on any credit that exceeded the Edge bank's limit.

The Edge banks have also achieved some success in attract-

GROWTH IN FOREIGN ACTIVITIES OF COMMERCIAL BANKS IN HOUSTON

Item	Percent increase, December to December	
	1971 over 1967	1975 over 1971
Total claims on foreigners	180%	244%
Loans		
Private nonbank foreigners	233	185
Foreign commercial banks	717	75
Foreign acceptances	75	338
Collections outstanding	60	48
Total liabilities to foreigners	143	233
Time deposits of private nonbank foreigners ...	45	383
Demand deposits		
Private nonbank foreigners	13	137
Foreign commercial banks	81	52

NOTE: Calculated from data reported to the U.S. Treasury Department

ing the business of older, more established firms. Collections are made faster by the small Houston offices than by the large international departments at home offices. Where letters of credit were previously routed to the main bank and then cleared (at a fee) through a Houston correspondent, they can now be written or cleared in Houston. Clearing times have dropped from a week or more to a day or two, and the incidence of lost documents has declined.

Some of the Edge banks in Houston have sizable foreign deposits. The parent banks of these offices have strong branch networks in Mexico and Latin America, and depositors from those countries find it is now easier to go to Houston than to the home office. But most of the Edge banks in Houston do not have a large foreign deposit business.

Foreign exchange trading in Houston is limited. No Edge bank—or, for that matter, local

commercial bank—has a foreign exchange trader or makes a market in foreign currencies. Houston's international bankers trade in the New York foreign exchange market for their customers.

Competitive impact of Edges

The establishment of Edge banks in Houston has increased competitive pressures on local commercial banks. Parent banks of Edge Act corporations usually have more extensive global repre-

Activity of foreign banks in Houston

The presence of many representative offices of foreign banks in Houston attests to the area's increasing importance in international banking. At least 13 foreign commercial and merchant banking institutions had representative offices there in late 1975.

These offices—prohibited by Texas law from engaging in banking—are in Houston to oversee the interests of their parent banks. And many aggressively market services and credit that can be booked at their home offices or at branch affiliates in New York, Chicago, or San Francisco. While some make calls only in the Southwest, others take in the entire United States, or even North America, as trade territories.

Canadian banks came to Houston as early as 1958. Beginning with a strong base in petroleum and allied industries, they now have customers in all lines of commerce. Transactions need not be tied to Canada. The banks will extend loans for profitable projects in the United States or anywhere else around the world—consortium loans for North Sea oil exploration, for example. A large percentage of the loans Canadian banks arrange are participated out to Houston banks. They have also been somewhat active in marketing large-denomination certificates of deposit.

Most other representative offices in Houston were established after 1973. Two Japanese offices followed major Japanese trad-

ing companies to the Southwest. Although Japan's economic interests in the Southwest have traditionally centered around cotton, its representative offices are most heavily involved in financing iron and steel imports from Japan. Heavy manufacturing in Houston and the Southwest is increasingly dependent on Japanese iron and steel, and about a third of all such U.S. imports from Japan enter through Houston.

The Japanese representatives are also active in financing refinery construction and other needs of major U.S. oil companies, not only in the United States and Japan but also in Iran, the Middle East, and Southeast Asia. And they have invested in many other sectors of U.S. industry.

Scottish offices and one Italian office are primarily service-oriented, helping home-based customers operate in the United States and encouraging U.S. firms to invest in their countries. But they also maintain close relationships with Houston's multinational corporations. And the Scots have a special interest in developing North Sea oil reserves.

The other foreign bank offices in Houston are trying to keep close ties with oil-related companies in the Southwest, including their domestic financing needs and their investments abroad. Otherwise, activities of these offices are too diverse for generalization.

sentation and more international expertise than local Houston banks. At mid-1975, for example, First National City Bank of New York had 243 branches in 58 countries, Edge offices in New York, Chicago, Los Angeles, Miami, and San Francisco, and additional international banking subsidiaries in 16 countries. That dwarfed the seven branch offices in three countries that five Houston banks controlled.

The large multinational banks maintain specialized staffs that analyze such developments as movements in foreign exchange rates, differences in money market rates around the world, and policy changes by foreign governments. And the Edge subsidiaries can pass along this valuable information to southwestern companies dealing overseas. The smaller Houston commercial banks do not have large staffs of foreign specialists and often must buy such information from correspondent banks in U.S. money centers.

Also, even the largest Houston banks sometimes find their legal lending limits insufficient to handle outsized overseas loan packages. Because of their modest capitalization, Edge banks have

small lending limits, both for individual customers and in aggregate. But as subsidiaries, they have access to the vast resources of their home offices. Currently, Edge banks in Houston participate out about \$2 for every \$1 of loans carried on their books, with 80-percent participation in some instances.

Even though some clients have shifted to the Edge banks, Houston commercial banks are handling more international business than ever.

Even though some clients have shifted to the Edge banks, Houston commercial banks are handling more international business than ever. The six largest Houston banks have experienced rapid growth in their international departments (the staff at one bank has tripled in the past three years). And growth of both claims on foreigners and liabilities to them has actually accelerated at Houston banks since the arrival of Edge offices.

Last year, Edge offices had 18 percent of the total claims on

foreigners held by all banking organizations in Houston. And their share among all District banks was only 7 percent, although this probably understates their share considering participations with home offices.

Obviously, local commercial banks still have something to offer customers dealing in international trade. Where Edge banks are restricted to international and foreign business, commercial banks can offer a full line of credit and services, including domestic loans, payroll management, stock registration and transfer, and pension fund and other trust services. As a typical industry practice, these are sold as packages partly in exchange for deposit balances. As a further return, customers of long standing receive tacit priority for loanable bank funds during tight credit conditions.

An Edge bank offers international credit and services on better terms. But in buying them, a corporate client may forgo the full value of its commercial bank balances. And by splitting its business, it could jeopardize its preferential status with the local bank. In this light, loyalty of many southwestern companies to full-service local banks may amount to good economic reasoning.

Potential for continued expansion

International banking in Houston is rapidly undergoing both growth and change. The Edge movement has brought an increased amount and variety of credit and services to the area. It has injected new expertise there, tying Houston into global branch networks of multinational banks. And even though they are without banking powers, representative offices of foreign banks are drawing foreign direct investment to the Southwest and arranging for financing of greater international trade.

SHARES OF SELECTED FOREIGN CLAIMS AND LIABILITIES OF COMMERCIAL BANKS AND EDGE CORPORATIONS IN HOUSTON

Item	Percent of Houston total, December 31, 1975	
	Banks	Edges
Total claims on foreigners	82%	18%
Loans		
Private nonbank foreigners	80	20
Foreign commercial banks	95	5
Foreign acceptances	93	7
Collections outstanding	72	28
Total liabilities to foreigners	64	36
Time deposits of private nonbank foreigners ...	5	95
Demand deposits		
Private nonbank foreigners	60	40
Foreign commercial banks	98	2
Foreign official institutions	100	0

NOTE: Calculated from data reported to the U.S. Treasury Department and the Federal Reserve System

As a center for world energy technology and know-how, Houston has an excellent potential for also becoming a center for international finance. It already has a significant concentration of international banking, but future progress will depend, in part, on the number and variety of new international banking outlets allowed.

As a center for world energy technology and know-how, Houston has an excellent potential for also becoming a center for international finance.

The role of foreign banks in Texas has been limited because the state's constitution denies them banking privileges. And during the 1974 Texas Constitutional Convention, an effort to open the state to foreign-owned banks proved unsuccessful. As a longtime unit-banking state, Texas seemed unprepared for legal recognition of branching, even if confined to foreign banks.

But some Texas bankers now favor the entry of foreign-owned banks into the state. They believe that foreign competitors would broaden the state's banking industry and bring profitable spillover business through increased foreign

trade and investment. A constitutional change would also increase the opportunities for Texas banks to branch overseas. Frequently, a foreign government will not permit Texas banks to have branches in its country without a reciprocal agreement. With extensive branch networks, Texas banks could achieve economies of scale in foreign operations and compete more effectively against money market multinationals, both here and abroad.

At this time, however, questions about the state's statutory authority over foreign banks may be moot. Late in 1974, the Board of Governors sent Congress proposed legislation for regulating foreign banking in the United States. Now called the Foreign Bank Act of 1975, it would standardize the status of many foreign banks in the United States by placing them under the same basic rules and procedures that domestic national banks must observe.

In particular, two provisions of the Foreign Bank Act would have direct bearing on the growth of international banking in Texas. One would permit foreign banks to own Edge corporations. The other would allow some degree of foreign ownership in national banks and would empower the Comptroller of the Currency to license branches of a foreign bank

in any state. If these provisions become law, foreign banks could engage in domestic and international banking in Texas despite state constitutional prohibition.

In the near term, the direction of international banking in Houston will come from policies of the Board of Governors as it exercises its authority under Sections 25 and 25(a) of the Federal Reserve Act. Early this year, the Board approved an application by the Bank of Tokyo to establish an Agreement corporation in Houston. By forming this corporation, the Bank of Tokyo had responded to objections made by the Board in denying an earlier application, last May, which proposed creating an international banking subsidiary in Houston under provisions of Section 4(c)(9) of the Bank Holding Company Act to avoid some of the restrictions in Regulation K.

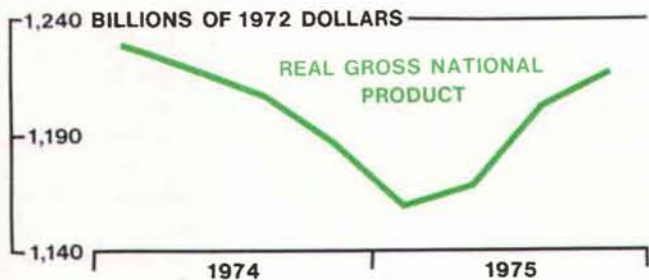
Texas banking authorities may well challenge whether a foreign-owned Agreement corporation can engage in banking with a state charter and still be in compliance with state law. But if the position of the Board of Governors that state law is not violated is upheld, other foreign banks would likely enter the Texas market by means of Agreement corporations.

New member bank

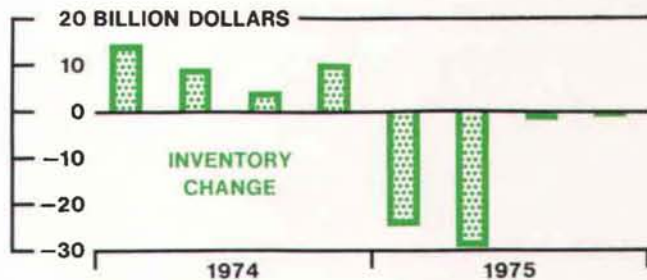
First National Bank of West University Place, West University Place, Texas, a newly organized institution located in the territory served by the Houston Branch of the Federal Reserve Bank of Dallas, opened for business February 19, 1976, as a member of the Federal Reserve System. The new member bank opened with capital of \$400,000, surplus of \$400,000, and undivided profits of \$200,000. The officers are: Joseph S. Bracewell, President; W. Otto Frosch, Executive Vice President; Joan Evans, Cashier; and Mary Lou Farrar, Director of Customer Relations.

REVIEW OF 1975

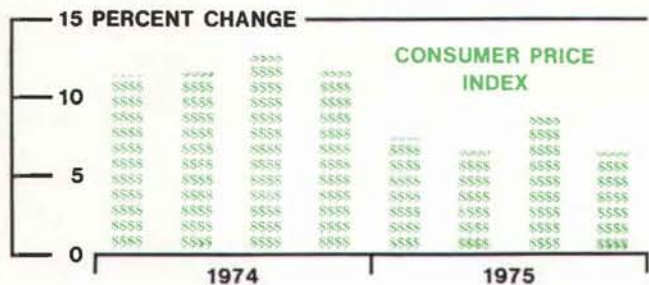
The nation's economy was marked by recovery from the most severe recession of the postwar period, significant moderation of inflation from double-digit levels, and a decline of most interest rates from record highs.



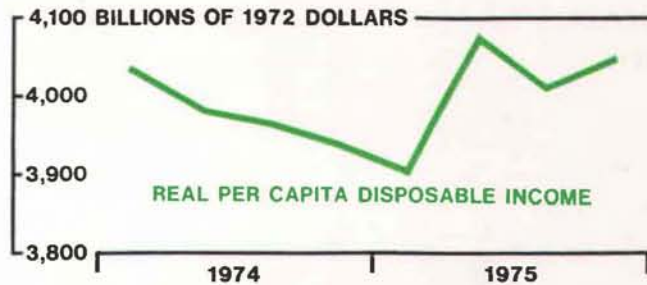
Output fell 6.6 percent from a peak in 1973 to the trough in the first quarter of 1975. It then advanced at somewhat less than the average pace for postwar recoveries.



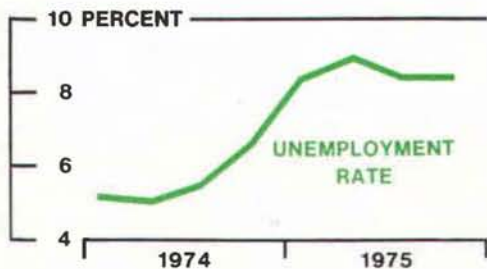
Fluctuations in economic activity were dominated by an exceptionally sharp inventory cycle. A large and mostly involuntary accumulation of inventories in 1974 gave way to massive liquidation in the first half of 1975.



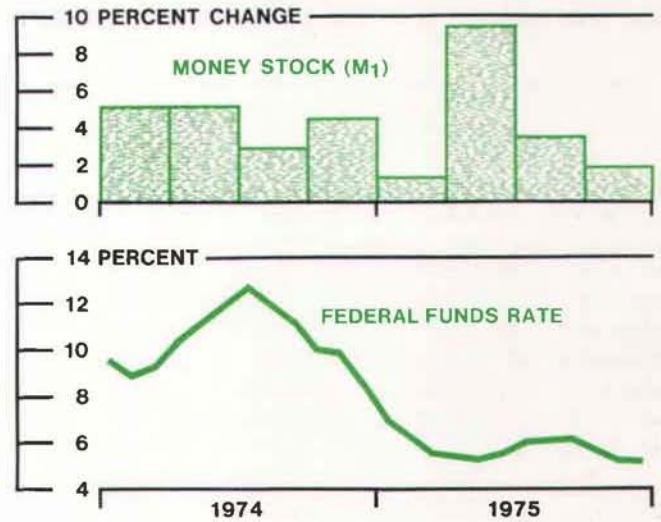
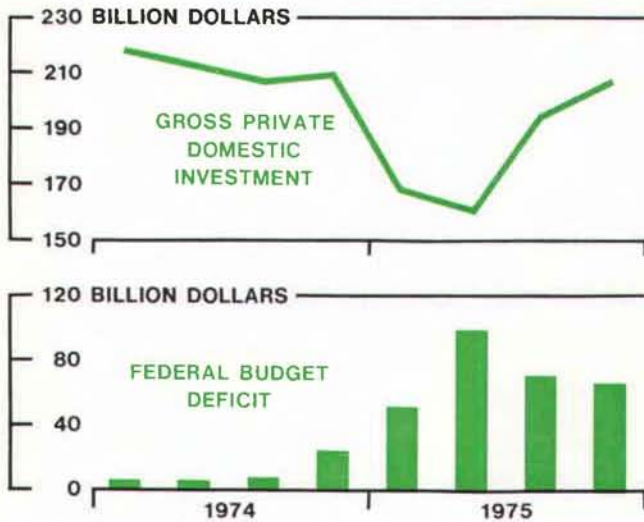
The rate of inflation declined from double-digit levels to 6.4 percent by the end of the year. But that was still more than double the average inflation rate of the 1960's.



And large gains were made in real per capita disposable income, partly because of the Tax Reduction Act of 1975. Tax rebates contributed to an especially sharp gain in the second quarter.

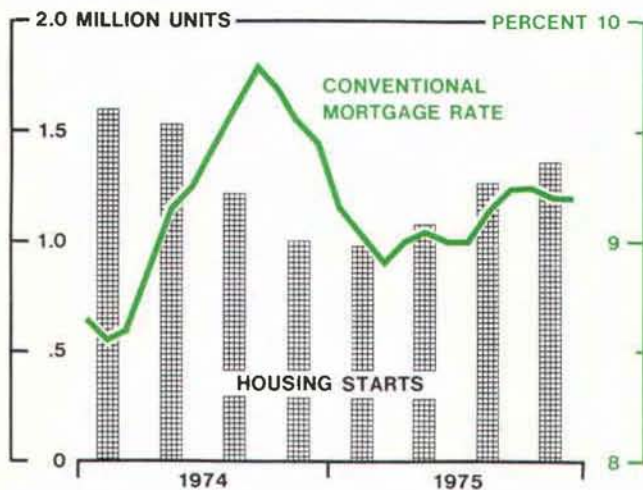


But because of continued growth in the labor force and rising labor productivity, the recovery translated into only modest reductions in the unemployment rate during the year.

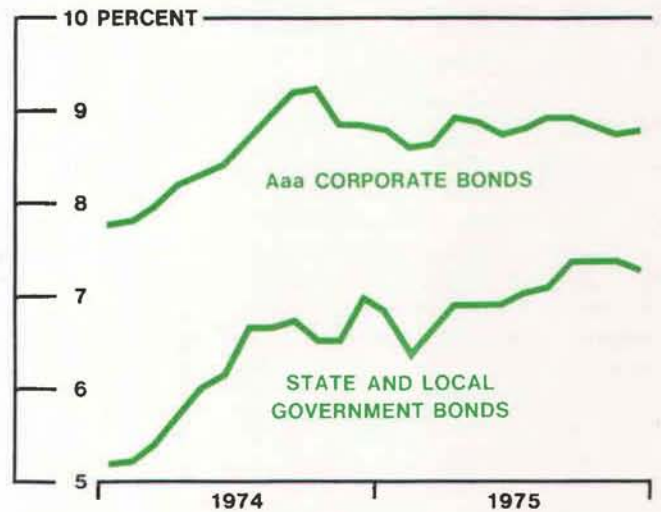


As the deficit in the federal government's budget rose, private spending on investment goods fell about as much. But since most interest rates were not rising, it was a case of weakness in private spending causing the deficit rather than the deficit crowding out investment spending.

Monetary policy was aimed at slowing inflation and achieving sustainable economic growth. M_1 expanded at less than 5 percent for the second consecutive year, compared with advances in excess of 6 percent in the preceding four years.



Reduced credit demands and large savings inflows into thrift institutions helped sustain relatively low mortgage rates. But a large stock of unsold homes and sharp increases in new home prices dampened the housing recovery.



Corporate bond yields remained high, mainly because inflationary expectations persisted and businesses lengthened the maturity of their debt. Yields on state and local government bonds actually rose as a consequence of the financial difficulties of New York City.

New Policy Prompts Increased Defensive Operations by Federal Reserve

In recent years, the amount of money in circulation has gained importance as a target and indicator of monetary policy. But even as more attention has been focused on the money stock, a recent change in the U.S. Treasury's management of its cash balances has increased the potential of Treasury balances to cause short-term fluctuations in money.

In response, the Federal Reserve System has stepped up defensive open market operations and, through these operations, has successfully offset the potential increase in the variability of the money stock. The Treasury's new cash management policy has not, therefore, significantly interfered with the Federal Reserve's ability to hit its desired monetary targets.

Treasury cash balances

Almost all the Treasury's cash disbursements, such as Social Security payments and Government payrolls, are made by drawing down Treasury checking accounts at the 12 Federal Reserve banks and their branches. These transactions inject funds into private demand deposits at commercial banks and, at the same time and by an equal amount, increase the reserves available to the commercial banking system.

Because banks are required to hold only a fractional amount of reserves against deposits and other liabilities, an injection of new reserves into the commercial banking system from Treasury cash disbursements can result in a multiple expansion in the money stock and bank credit and exert downward pressure on money market yields.

By contrast, Treasury cash receipts that are paid into accounts at Federal Reserve banks—tax collections or proceeds from security sales, for example—can produce the opposite effects since they drain reserves from commercial banks.

The Treasury's new cash management policy has not significantly interfered with the Federal Reserve's ability to hit its desired monetary targets.

To minimize disruptions in the money market resulting from large and irregular flows of funds between the Government and private sectors of the economy, the Treasury began using, as early as 1917, a specialized system of deposits—called tax and loan accounts—in the management of its cash balances. Tax and loan accounts are Treasury-owned demand deposits at about 12,700 commercial banks that qualify as special depositories. Banks can qualify by applying through a Federal Reserve bank and posting collateral, in the form of various government securities, to cover funds in the accounts.

Initially, Congress authorized the use of tax and loan accounts for the deposit of proceeds from sales of new Treasury securities, which helped induce commercial banks to distribute new issues at no direct commission costs to the Government. Later, after World War II, Congress broadened the use of these special accounts to include deposits of payroll taxes,

income taxes, and certain excise taxes. And today, balances in tax and loan accounts come mostly from tax collections.

When payments to the Treasury are made by crediting tax and loan accounts at banks, no reserves are drained from commercial banks. Instead, ownership of a given quantity of demand deposits is simply transferred from a private account to a tax and loan account of the Treasury. The Treasury can leave the funds in the commercial banking system until they are needed for expenditures. At that time, funds are transferred to deposits at Federal Reserve banks for disbursement, which returns them to commercial banks.

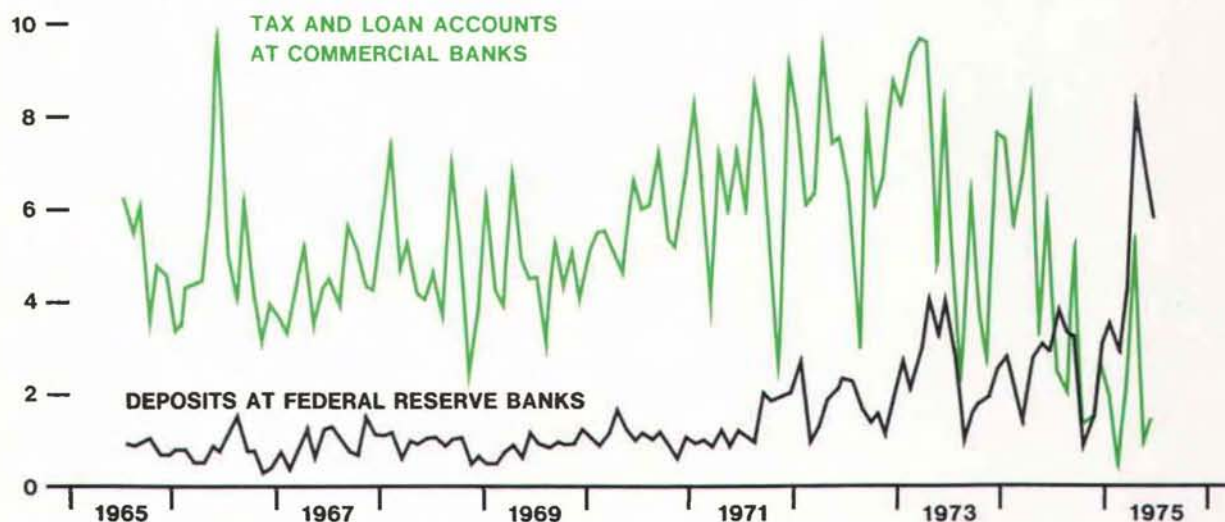
Acting in consultation with officials at the Federal Reserve Bank of New York, the Treasury transfers funds from tax and loan accounts to deposits at Federal Reserve banks through the use of calls on commercial banks, or scheduled withdrawals. Before 1971, the Treasury generally sought to minimize the impact of calls on bank reserves by attempting to keep its deposits at Federal Reserve banks at a minimal level.

Day-to-day experience revealed the amount of deposits needed to conduct Treasury operations efficiently. And forecasts of expenditures and receipts enabled Treasury officials to schedule calls so as to restore deposits at Federal Reserve banks to efficient operating levels. Receipts in excess of immediate disbursement needs were allowed to accumulate in tax and loan accounts at commercial banks. And the Treasury quickly redeposited in tax and

Treasury Demand Deposits

12 BILLION DOLLARS

(END-OF-MONTH BALANCES)



SOURCE: U.S. Treasury Department

loan accounts any surplus funds in operating balances.

New Treasury policy

After 1971, the size of Treasury deposits at Federal Reserve banks increased substantially, as did their fluctuations, because the Treasury changed its policy and began keeping minimal balances in tax and loan accounts.

Because they are demand deposits, tax and loan accounts cannot earn interest under present federal legislation. Yet, banks can realize a return with the funds obtained from these accounts. In the past, the Treasury viewed these returns as fair compensation to banks for their services in handling tax and loan accounts. However, in a 1974 study, the Treasury reported that, partly because of higher interest rates, bank earnings on these accounts had come

to exceed the value of services rendered by banks handling them.¹

Congress is considering several bills that would authorize permanent changes in the Treasury's cash management practices and permit interest to be earned on idle Government funds.

On the basis of this report, Congress is considering several bills that would authorize permanent changes in the Treasury's cash management practices and permit interest to be earned on idle Government funds. Pending the adoption of one of these bills, the Treasury has reduced its balances in tax and loan accounts and shifted funds into deposits at Federal Reserve banks.

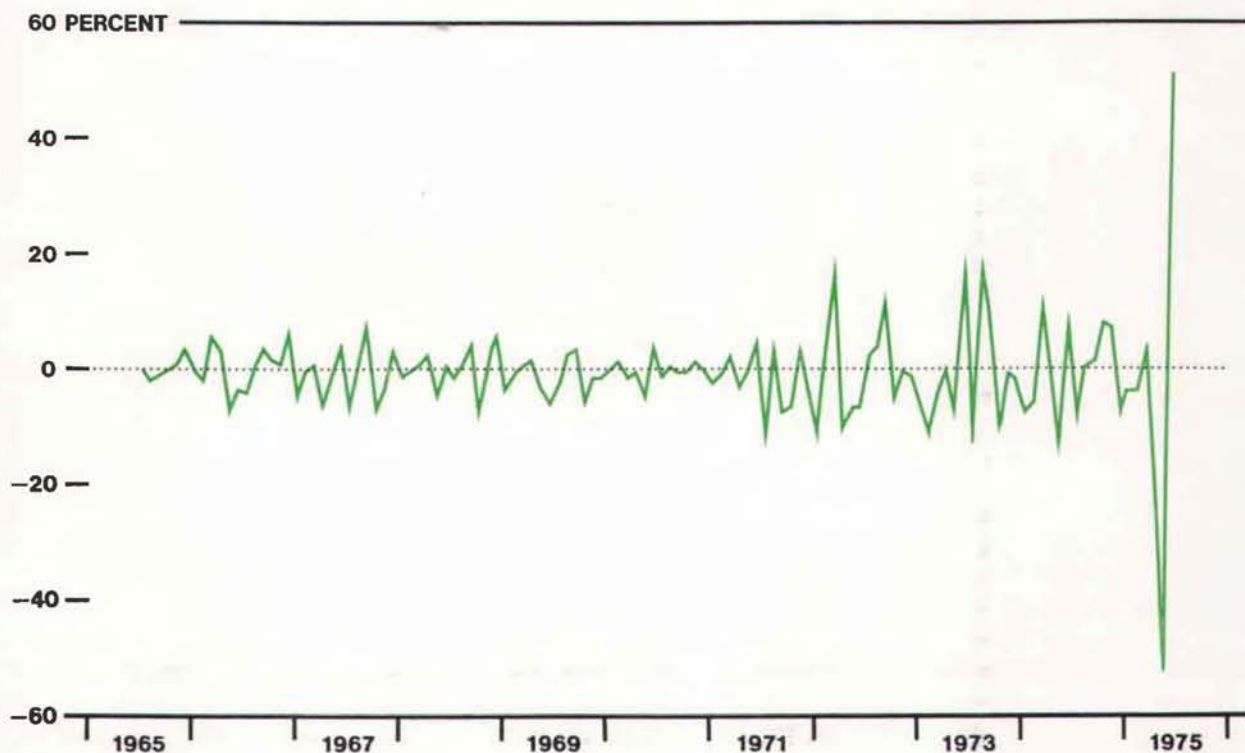
In response to this shift and to prevent a deficiency in the reserves of commercial banks, the Federal Reserve System has purchased an appropriate amount of Government securities in the open market. The Treasury's revenues have been enhanced since the higher net income from the Federal Reserve's larger holdings of Government securities accrues to the Treasury. But the shift of funds to Federal Reserve banks has also complicated the task of monetary management because the minimization of tax and loan accounts has caused Treasury balances at Federal Reserve banks to become more volatile.

Effect on the money stock

Fluctuations in Treasury deposits at Federal Reserve banks, if not offset by System open market operations, can cause variations

1. *Report on a Study of Tax and Loan Accounts*, Treasury Department, June 1974

Potential Changes in the Money Stock
Due to Changes in Treasury Deposits at Federal Reserve Banks



NOTE: Estimated as $-m_{-1}\Delta TDFR/M$ expressed at an annual rate, where $\Delta TDFR$ is the change in average monthly balances of Treasury deposits at Federal Reserve banks, M is the narrowly defined money stock, and m_{-1} is its multiplier for the preceding month.

in the stock of money because changes in these deposits create changes in base money. Base money consists of the net monetary liabilities of the Federal Reserve System and the Treasury that are held by commercial banks and the nonbank public. It is equal to member bank deposits at Federal Reserve banks, vault cash held by banks, and currency held by the public.² Currently, about \$2.5 in

money—defined as currency plus demand deposits other than those of domestic banks and the Treasury—is supported by each \$1 of base money.

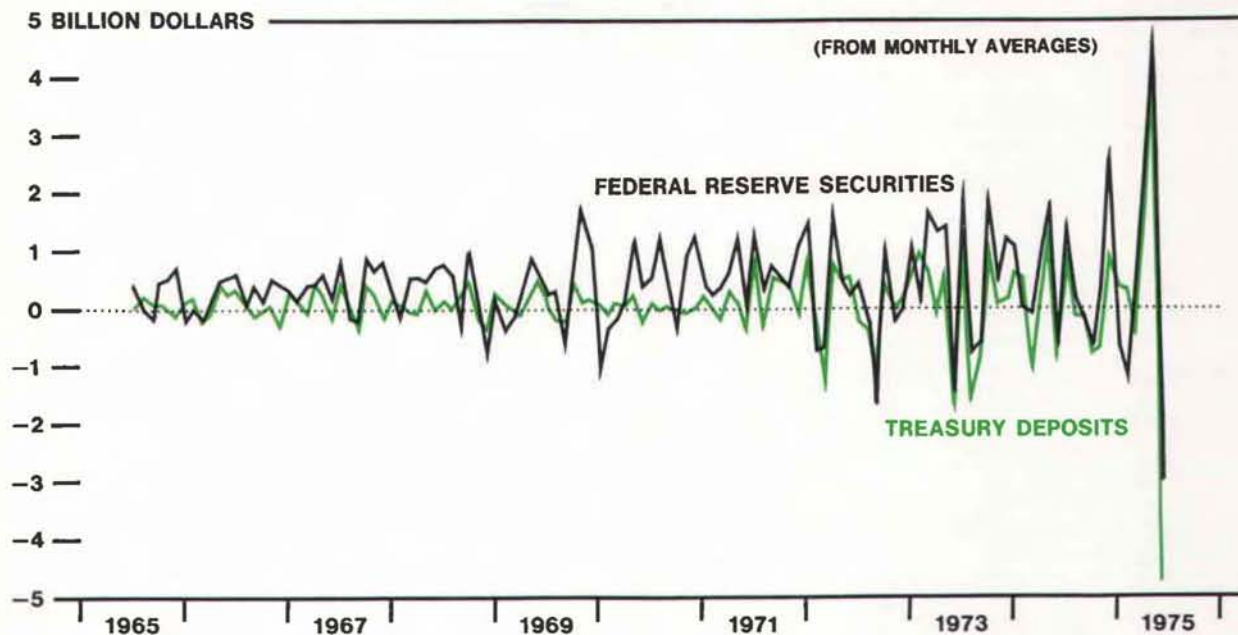
Since the Treasury adopted the new policy, changes in its deposits at Federal Reserve banks have become a dominant source of potential short-term fluctuations in base money. In the four years ended June 1971, the standard

deviation about the mean for monthly changes in the Treasury's deposits was not substantially larger than for most other sources of changes in the base. But in the following four years, the standard deviation of these changes ranked second in size only to that of changes in Federal Reserve securities and was three times larger than that of the next most volatile source of change.

2. Base money has several sources. Increases in securities, loans, and other assets held by Federal Reserve banks—as well as increases in Federal Reserve float—add to the base because these items are paid for with monetary liabilities of the Federal Reserve. Acquisitions of gold or Special Drawing Rights by the Treasury and increases in the amount of its currency outstanding over and above its own holdings of currency also add to the base. But increases in deposits at Federal Reserve banks other than those of member banks reduce the base. These include increases in foreign-owned deposits and Treasury deposits.

For a more detailed description of the monetary base, see Leonall C. Andersen and Jerry L. Jordan, "The Monetary Base—Explanation and Analytical Use," *Review*, Federal Reserve Bank of St. Louis, August 1968.

**Changes in Federal Reserve Holdings of Securities
And in Treasury Deposits at Federal Reserve Banks**



SOURCE: Board of Governors, Federal Reserve System

The potential effect of changes in Treasury deposits at Federal Reserve banks on the stock of money can be estimated by multiplying the current ratio of the money stock to the base by the actual changes. Before June 1971, the Treasury's policy of maintaining low and stable balances at Federal Reserve banks limited potential monthly changes in money arising from their movements to a relatively narrow range of minus 7.6 percent to plus 8.6 percent, at annual rates. But after June 1971, the range of potential

changes in money from this source increased to minus 52.7 percent to plus 52.6 percent.

Both before and after the Treasury changed its cash management policy, however, open market operations of the Federal Reserve almost completely offset the potential impact of these changes on the money stock. Thus, for the four years ended June 1971, statistical regression analysis shows that a \$1 change in Treasury deposits at Reserve banks induced the Federal Reserve System to change its holdings of Government securities in

the same direction by \$1.18, on average. And in the next four years, a \$1 change in Treasury deposits at Federal Reserve banks caused the System to change its holdings of Government securities by only 90 cents. The difference in measured response between these two periods, however, is not statistically significant.³

A further indication of how successfully the Federal Reserve System's defensive open market operations have offset the effects of the increased volatility of Treasury deposits can be obtained from

3. In this analysis, the regression equations were—
 July 1967-June 1971: $\Delta FRS = 393 + 1.18\Delta TDFR$
 (4.84) (3.47)
 July 1971-June 1975: $\Delta FRS = 454 + .90\Delta TDFR$
 (4.78) (11.6)

where ΔFRS is the monthly change in Federal Reserve holdings of securities and $\Delta TDFR$ is the monthly change in Treasury deposits at Federal Reserve banks, with the changes in millions of dollars. The figures in parentheses are t statistics of the regression coefficients.

The Chow Test failed to detect a statistically significant difference between the coefficients of changes in Treasury deposits at Federal Reserve banks for the two periods at the 90-percent confidence level.

STANDARD DEVIATION OF MONTHLY CHANGES IN BASE MONEY AND ITS COMPONENTS

(Changes in average monthly levels. Millions of dollars)

Period	Base money	FRS	BOR	FLOAT	G-SDR	COIN	TDFR	FOR	MISC
July 1967-June 1971 ...	\$604	\$619	\$170	\$447	\$233	\$35	\$238	\$23	\$258
July 1971-June 1975 ...	934	1,278	340	409	162	76	1,224	79	296

NOTE: Base money equals FRS, BOR, FLOAT, G-SDR, and COIN less TDFR, FOR, and MISC.

FRS is Federal Reserve holdings of securities, BOR is member bank borrowings, FLOAT is Federal Reserve float, G-SDR is Treasury gold and Special Drawing Rights certificate accounts at Federal Reserve banks, and COIN is Treasury currency outstanding less Treasury currency holdings. TDFR is Treasury deposits at Federal Reserve banks, FOR is foreign deposits at Federal Reserve banks, and MISC is miscellaneous liabilities of the Federal Reserve less miscellaneous assets.

examining the degree of association between variations in Treasury deposits at Federal Reserve banks and changes in base money.

Both before and after the Treasury changed its cash management policy, open market operations of the Federal Reserve almost completely offset the potential impact of these changes on the money stock.

Before the Treasury adopted its new policy, a \$1 change in Treasury deposits at Reserve banks probably generated a change in base money of 4 cents in the same direction, on average. But this estimated effect is not significantly different from zero, which means

that it could have been obtained purely by chance.

After the policy change, the Federal Reserve continued to be successful in using defensive operations to offset movements in Treasury balances at Reserve banks despite their greater volatility. From 1971 to 1975, a \$1 change in Treasury balances at Reserve banks probably caused a change in base money of only 8 cents in the opposite direction. But once again, the estimated effect is not significantly different from zero.⁴

In summary, the continued tight association between changes in the Federal Reserve's holdings of Government securities and changes in Treasury deposits at Federal Reserve banks, as well as the continued lack of a significant association between changes in

these deposits and changes in base money, indicates that monthly changes in the money stock have not been affected to any substantial degree by movements in these Treasury balances, either before or after the Treasury's new policy. Since the Federal Reserve has successfully offset the increased potential for variations in money, the greater volatility of Treasury balances at Federal Reserve banks has not significantly interfered with its ability to hit desired monetary targets.

—William R. McDonough

4. The regression equations used were—

$$\text{July 1967-June 1971: } \Delta BM = 392 + .04\Delta TDFR$$

(4.40) (.11)

$$\text{July 1971-June 1975: } \Delta BM = 528 + -.08\Delta TDFR$$

(3.85) (.80)

where ΔBM is the monthly change in base money and $\Delta TDFR$ is the monthly change in Treasury deposits at Federal Reserve banks, with the changes in millions of dollars. The figures in parentheses are *t* statistics of the regression coefficients.

As indicated by *t* tests on the coefficients of $\Delta TDFR$, the effect of changes in Treasury deposits at Federal Reserve banks on base money was not significantly different from zero at the 90-percent confidence level in either period.



Federal Reserve Bank of Dallas

March 1976

Eleventh District Business Highlights

Total credit at District member banks in 1975, after slowing considerably in 1974, almost regained its growth rate of recent years. An analysis of the changes in the major components of total credit, however, indicates 1975 was an unusual year for credit at these banks.

Perhaps the most notable development at member banks in the District last year was a record 60-percent increase in holdings of Government securities. The sizable net acquisition followed three consecutive years of net reductions. Relatively high deposit inflows and a moderate rate of growth in total loans allowed District banks to finance a substantial volume of investments.

Bankers' decisions to concentrate their investments in Government securities last year differed from their actions of other recent years. A large volume of these securities was readily available, as the federal government financed a very large budget deficit.

A substantial part of the increase reflected net acquisitions of intermediate-term U.S. Treasury notes. Falling short-term interest rates played a part in the increase in holdings of Treasury notes. Interest rates on short-term money market instruments fell faster than on intermediate-term offerings, making Treasury notes a more attractive investment. Acquisitions of Treasury bills also rose sharply, however, as member banks sought to improve their liquidity.

In past years, member banks in the District generally increased their holdings of tax-exempt municipal securities substantially during periods of weak loan demand. The net increase in holdings of these

issues in 1975 was somewhat smaller than usual, possibly because of the inability of New York City to honor some of its maturing securities. State and local governments in this District avoided such fiscal difficulties and reportedly had little trouble in marketing their securities. New marketings by municipal governments in Texas remained about in line with other recent years. However, the uncertainty created by the situation in New York City undoubtedly affected bank demand for other municipal obligations of state and local governments outside the District. Most important, however, banks had less need for tax-exempt income from municipal securities in 1975 as they undertook to maximize after-tax income, because of loan charge-offs and other developments.

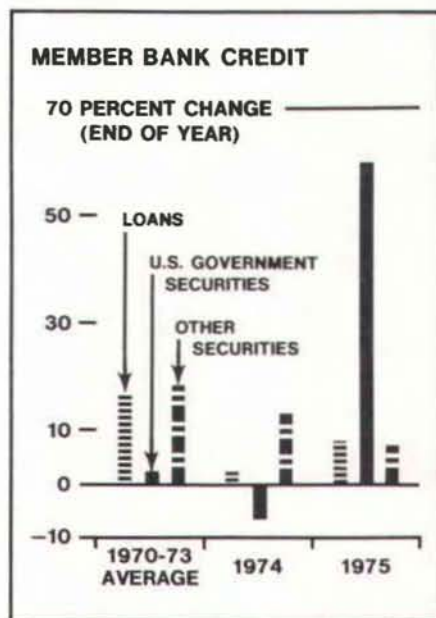
Bank loans rose substantially less than usual during both 1974 and

1975. In 1974, interest rates reached record highs, and the economy entered its deepest recession of recent years. As a result, loans rose only 2.2 percent at District member banks in 1974. In 1975, the rate of increase in inflation slackened, short-term interest rates moved downward, and the economy resumed its upward climb in the second quarter. Nevertheless, total loans rose less than in the years before the recession.

Chemical production and petroleum refining, the two largest components of the Texas industrial production index, have led the recovery in output in the state. Since the cyclical trough in April 1975, output in these two industries has advanced about three times faster than the 4-percent increase in the total index.

In the early months of recovery, increased chemical production resulted from a rebuilding of stocks by users. Since then, however, improvement in the auto industry has strengthened final demand for chemicals. The increase in auto production has especially spurred Texas chemical output, since producers in the state supply a large share of the basic ingredients of synthetic rubber used in the manufacturing of automobile tires. Also aiding the recovery in chemical production has been the stepped-up output of textiles and the improvement in construction. In addition, production has been spurred, as chemical producers have increased their inventories of finished goods in order to keep sales-inventory ratios at normal levels.

Petroleum refining, part of whose output is processed by the chemical
(Continued on back page)



CONDITION STATISTICS OF WEEKLY REPORTING COMMERCIAL BANKS

Eleventh Federal Reserve District

(Thousand dollars)

ASSETS	Feb. 18, 1976	Jan. 21, 1976	Feb. 19, 1975	LIABILITIES	Feb. 18, 1976	Jan. 21, 1976	Feb. 19, 1975
Federal funds sold and securities purchased under agreements to resell	1,942,456	1,652,537	1,929,698	Total deposits	17,214,485	16,736,203	16,139,768
Other loans and discounts, gross	10,641,350	10,734,951	10,345,094	Total demand deposits	8,091,104	7,719,418	7,519,495
Commercial and industrial loans	5,415,485	5,399,940	4,896,601	Individuals, partnerships, and corporations	5,736,639	5,595,728	5,364,897
Agricultural loans, excluding CCC certificates of interest	218,410	223,426	222,339	States and political subdivisions	392,915	440,100	479,988
Loans to brokers and dealers for purchasing or carrying:				U.S. Government	149,868	143,131	82,617
U.S. Government securities	219	200	15	Banks in the United States	1,603,926	1,368,550	1,410,475
Other securities	58,730	56,607	24,542	Foreign:			
Other loans for purchasing or carrying:				Governments, official institutions, central banks, and international institutions	2,766	2,977	3,959
U.S. Government securities	7,100	5,023	2,415	Commercial banks	62,209	67,614	65,553
Other securities	371,209	368,435	399,321	Certified and officers' checks, etc.	142,781	101,318	112,006
Loans to nonbank financial institutions:				Total time and savings deposits	9,123,381	9,016,785	8,620,273
Sales finance, personal finance, factors, and other business credit companies	164,759	178,693	194,718	Individuals, partnerships, and corporations	1,574,213	1,436,780	1,201,106
Other	581,541	552,051	569,017	Savings deposits	7,549,168	7,580,005	7,419,167
Real estate loans	1,334,819	1,347,579	1,509,678	Other time deposits	4,785,881	4,893,754	4,689,292
Loans to domestic commercial banks	41,085	74,305	48,111	States and political subdivisions	2,265,109	2,164,583	2,465,331
Loans to foreign banks	67,464	62,854	66,440	U.S. Government (including postal savings)	11,445	11,301	14,570
Consumer instalment loans	1,111,944	1,128,192	1,109,806	Banks in the United States	458,007	476,931	226,037
Loans to foreign governments, official institutions, central banks, and international institutions	4,699	4,716	5	Foreign:			
Other loans	1,263,886	1,332,930	1,302,086	Governments, official institutions, central banks, and international institutions	14,139	19,112	18,337
Total investments	5,421,942	5,305,576	4,475,772	Commercial banks	14,587	14,324	5,600
Total U.S. Government securities	1,939,125	1,826,159	1,094,721	Federal funds purchased and securities sold under agreements to repurchase	3,604,517	3,351,398	2,844,275
Treasury bills	431,969	372,524	175,649	Other liabilities for borrowed money	24,052	20,207	58,686
Treasury certificates of indebtedness	0	0	0	Other liabilities	708,840	673,622	603,391
Treasury notes and U.S. Government bonds maturing:				Reserves on loans	195,329	209,127	200,719
Within 1 year	281,469	301,675	152,329	Reserves on securities	24,770	24,081	21,307
1 year to 5 years	1,061,829	1,006,410	593,183	Total capital accounts	1,549,918	1,533,831	1,441,880
After 5 years	163,858	145,550	173,560	TOTAL LIABILITIES, RESERVES, AND CAPITAL ACCOUNTS	23,321,911	22,548,469	21,310,026
Obligations of states and political subdivisions:							
Tax warrants and short-term notes and bills	195,380	217,619	110,220				
All other	2,945,249	2,938,651	2,962,847				
Other bonds, corporate stocks, and securities:							
Certificates representing participations in federal agency loans	14,037	13,582	12,099				
All other (including corporate stocks)	328,151	309,565	295,885				
Cash items in process of collection	2,116,722	1,646,049	1,711,919				
Reserves with Federal Reserve Bank	910,382	1,235,592	1,160,055				
Currency and coin	131,877	132,528	130,156				
Balances with banks in the United States	683,761	493,733	534,899				
Balances with banks in foreign countries	202,417	176,187	37,543				
Other assets (including investments in subsidiaries not consolidated)	1,271,004	1,171,316	984,890				
TOTAL ASSETS	23,321,911	22,548,469	21,310,026				

DEMAND AND TIME DEPOSITS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. Million dollars)

Date	DEMAND DEPOSITS			TIME DEPOSITS	
	Total	Adjusted ¹	U.S. Government	Total	Savings
1974: January	14,384	10,276	302	14,533	2,900
1975: January	14,180	10,353	166	16,842	3,079
February	13,956	10,245	150	17,052	3,124
March	14,114	10,349	165	17,177	3,226
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
July	14,501	10,698	164	17,315	3,480
August	14,514	10,745	129	17,452	3,493
September	14,748	10,608	196	17,563	3,513
October	14,725	10,752	171	17,715	3,561
November	15,072	10,947	165	18,031	3,608
December	15,418	11,217	201	18,249	3,689
1976: January	15,736	11,438	188	18,558	3,817

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	Jan. 28, 1976	Dec. 31, 1975	Jan. 29, 1975
ASSETS			
Loans and discounts, gross	22,843	23,538	21,612
U.S. Government obligations	3,572	3,504	2,144
Other securities	7,620	7,580	7,067
Reserves with Federal Reserve Bank	1,791	1,666	1,814
Cash in vault	419	430	392
Balances with banks in the United States	1,588	2,077	1,377
Balances with banks in foreign countries ^a	185	140	53
Cash items in process of collection	1,901	2,858	1,625
Other assets ^a	2,325	2,397	1,736
TOTAL ASSETS ^a	42,244	44,190	37,820
LIABILITIES AND CAPITAL ACCOUNTS			
Demand deposits of banks	1,880	2,555	1,703
Other demand deposits	13,157	15,109	12,079
Time deposits	18,849	18,395	17,013
Total deposits	33,886	36,059	30,795
Borrowings	3,864	3,581	2,795
Other liabilities ^a	1,707	1,768	1,564
Total capital accounts ^a	2,787	2,782	2,666
TOTAL LIABILITIES AND CAPITAL ACCOUNTS ^a	42,244	44,190	37,820

a—Estimated

RESERVE POSITIONS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. Thousand dollars)

Item	5 weeks ended Feb. 4, 1976	4 weeks ended Dec. 31, 1975	5 weeks ended Feb. 5, 1975
Total reserves held	2,121,994	2,093,203	2,062,531
With Federal Reserve Bank	1,737,055	1,715,217	1,701,048
Currency and coin	384,939	377,986	361,483
Required reserves	2,113,946	2,072,442	2,036,179
Excess reserves	8,048	20,761	26,352
Borrowings	7,514	4,867	22,578
Free reserves	534	15,894	3,774

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 ²			
	Jan. 1976 (Annual-rate basis)	Percent change from		Jan. 31, 1976	Annual rate of turnover		
		Dec. 1975	Jan. 1975		Jan. 1976	Dec. 1975	Jan. 1975
ARIZONA: Tucson	\$29,124,884	-3%	80%	\$381,447	74.2	79.0	45.1
LOUISIANA: Monroe	7,909,577	8	42	136,780	57.5	54.2	46.9
Shreveport	18,442,476	-8	-4	357,593	49.3	52.9	54.9
NEW MEXICO: Roswell ¹	1,597,752	4	11	58,718	26.5	25.0	28.2
TEXAS: Abilene	5,321,501	3	33	156,696	33.1	31.8	28.0
Amarillo	12,034,116	-5	15	273,327	43.3	45.6	43.7
Austin	30,599,292	3	45	503,450	57.5	54.7	51.2
Beaumont-Port Arthur-Orange	12,446,238	8	7	371,014	33.3	31.2	36.2
Brownsville-Harlingen-San Benito	5,319,900	-11	43	140,083	36.5	41.5	30.6
Bryan-College Station	2,223,600	4	22	70,863	31.6	30.5	30.9
Corpus Christi	13,452,445	-2	15	349,759	39.0	40.2	39.8
Corsicana ¹	838,794	5	14	45,487	18.5	17.9	18.0
Dallas	242,785,669	-9	4	3,320,708	74.0	82.0	77.1
El Paso	14,836,291	11	22	352,323	41.7	37.1	38.7
Fort Worth	46,284,032	2	17	1,078,184	43.8	44.3	42.8
Galveston-Texas City	5,345,504	2	-3	155,783	32.9	31.5	38.2
Houston	297,934,232	7	22	4,502,181	67.0	63.6	63.3
Killeen-Temple	3,380,689	-5	21	138,662	24.9	26.1	23.5
Laredo	2,268,678	-3	17	81,355	27.7	29.5	28.8
Lubbock	11,141,588	11	40	254,413	43.1	39.3	34.1
McAllen-Pharr-Edinburg	5,578,276	7	58	187,935	29.5	28.2	28.5
Midland	6,920,567	5	58	249,694	26.4	25.5	19.7
Odessa	5,815,574	-10	82	150,880	39.4	44.8	24.3
San Angelo	4,307,464	-7	58	109,161	39.1	36.7	28.1
San Antonio	35,604,384	-17	17	954,994	35.8	41.9	33.5
Sherman-Denison	2,006,255	-6	21	88,547	22.5	23.5	19.1
Texarkana (Texas-Arkansas)	2,511,698	-7	13	98,251	24.9	25.6	23.9
Tyler	4,465,834	4	14	163,176	27.5	26.6	26.3
Waco	6,656,534	6	13	178,673	36.4	33.3	37.3
Wichita Falls	4,868,742	-8	5	191,146	25.5	27.6	26.0
Total—30 centers	\$842,022,584	-1%	17%	\$15,101,283	55.7	56.7	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	Feb. 25, 1976	Jan. 21, 1976	Feb. 26, 1975
Total gold certificate reserves	422,062	422,062	464,998
Loans to member banks	10,270	10,000	12,600
Other loans	0	0	0
Federal agency obligations	322,594	322,663	214,277
U.S. Government securities	4,459,739	4,363,904	3,698,409
Total earning assets	4,792,603	4,716,567	3,925,286
Member bank reserve deposits	1,725,204	1,919,265	1,888,320
Federal reserve notes in actual circulation	2,933,999	2,944,533	2,615,229

VALUE OF CONSTRUCTION CONTRACTS

(Million dollars)

Area and type	Jan. 1976	Dec. 1975	Nov. 1975	Jan. 1975r
FIVE SOUTHWESTERN STATES¹	809	875	716	709
Residential building	347	292	315	262
Nonresidential building	217	275	224	315
Nonbuilding construction	245	307	177	67
UNITED STATES	6,390	5,431	5,573	5,128
Residential building	2,157	2,233	2,404	1,540
Nonresidential building	1,939	1,865	1,859	2,326
Nonbuilding construction	2,294	1,334	1,309	1,262

1. Arizona, Louisiana, New Mexico, Oklahoma, and Texas
r—Revised

NOTE: Details may not add to totals because of rounding.
SOURCE: F. W. Dodge, McGraw-Hill, Inc.

BUILDING PERMITS

VALUATION (Dollar amounts in thousands)

Area	NUMBER		Percent change January 1976 from	
	January 1976	January 1976	December 1975	January 1975
ARIZONA				
Tucson	240	\$2,953	-49%	-52%
LOUISIANA				
Monroe	57	1,179	-82	-26
Shreveport	354	3,293	-35	12
TEXAS				
Abilene	105	3,201	63	182
Amarillo	240	5,333	5	81
Austin	451	11,213	83	139
Beaumont	128	2,478	41	49
Brownsville	110	3,141	255	315
Corpus Christi	240	4,333	-34	-11
Dallas	911	16,993	46	-55
Denison	13	271	107	-16
El Paso	303	11,163	30	-47
Fort Worth	353	5,251	-39	43
Galveston	50	474	165	-64
Houston	1,812	50,151	-20	-8
Laredo	93	1,318	177	80
Lubbock	179	6,798	10	55
Midland	116	2,334	25	38
Odessa	130	3,228	4	250
Port Arthur	56	202	-35	-27
San Angelo	50	1,070	-59	114
San Antonio	722	11,038	-35	49
Sherman	25	1,488	248	75
Texarkana	43	223	-25	-66
Waco	183	921	-63	-56
Wichita Falls	115	3,596	17	712
Total—26 cities	7,079	\$153,643	-9%	-7%

INDUSTRIAL PRODUCTION AND TEXAS MANUFACTURING CAPACITY UTILIZATION

(Seasonally adjusted indexes, 1967 = 100 for production)

Area and type of index	Jan. 1976p	Dec. 1975	Nov. 1975	Jan. 1975
TEXAS				
Total industrial production	126.3	127.4	125.6	125.1
Manufacturing	132.9	134.0	130.9	128.7
Durable	131.9	134.8	131.7	130.7
Nondurable	133.8	133.3	130.2	127.1
Mining	105.3	106.6	107.6	111.2
Utilities	168.9	168.9	168.9	167.5
Capacity utilization in manufacturing (1972 = 100)	96.3	97.4	95.4	97.2
UNITED STATES				
Total industrial production	119.3	118.5	117.4	113.7
Manufacturing	118.2	117.4	116.4	111.8
Durable	109.4	108.6	107.8	108.2
Nondurable	131.0	130.6	129.0	117.2
Mining	104.7	103.3	106.0	107.0
Utilities	155.7	155.0	154.2	152.1

p—Preliminary

r—Revised

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

industry, usually moves with chemical production. And this relationship has been clearly demonstrated over the past year. Since the upturn in chemical production last spring, capacity utilization at refineries on the Texas Gulf Coast has risen from 88 percent to 94 percent.

Petroleum refineries have also stepped up operations to meet increased demand for gasoline. Gasoline consumption, nationwide, is running 5 percent ahead of the pace a year ago. Increased new car sales and lower prices at the gas pumps, due in large part to the suspension of the \$2 a barrel import duty, have fueled demand.

Production from the state's aging oil fields has not kept pace with demand for petroleum feedstocks and domestic fuel requirements. In fact, crude oil mining in the state has declined 4 percent since April 1975. And this has necessitated refining more imported oil to meet growing domestic demand.

Other highlights:

- The labor market in the five southwestern states continued to improve in January, as the unemployment rate fell to 6.4 percent from 6.7 percent in December. The jobless rate was a full percentage

point below the cyclical peak in May 1975.

Employment in the manufacturing sector continued to recover strongly. Much of the latest gain centered in nondurable goods production. Construction employment, seasonally adjusted, rose 5 percent in January.

- The steady decrease in construction spending in Texas during the last half of 1975 is slowing. The value of building contracts in the state in January, seasonally adjusted, was virtually unchanged from a month before. That followed six consecutive months of decline.

The source of last year's construction slump, nonresidential and nonbuilding activity, has shown few signs of improvement. But residential construction continues to increase and is now offsetting the weakness in the other sectors. For example, the value of residential contracts in January 1976 was over 50 percent higher than the level a year before.

- Broiler supplies should be plentiful this spring, as higher prices and lower feed costs have stimulated broiler production since mid-1975. The number of chicks placed on feed in Texas in February was about a fifth higher than a year ear-

LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Five Southwestern States¹

(Seasonally adjusted)

Item	Thousands of persons			Percent change Jan. 1976 from	
	Jan. 1976p	Dec. 1975	Jan. 1975r	Dec. 1975	Jan. 1975
Civilian labor force	9,380.4	9,307.8	9,379.1	0.8%	0.0%
Total employment	8,777.3	8,680.4	8,819.2	1.1	-5
Total unemployment	603.1	627.4	559.9	-3.9	7.7
Unemployment rate	6.4%	6.7%	6.0%	² -3	² 4
Total nonagricultural wage and salary employment	7,756.4	7,676.3	7,666.0	1.0	1.2
Manufacturing	1,285.5	1,276.6	1,290.8	.7	-4
Durable	714.5	713.1	729.1	.2	-2.0
Nondurable	571.0	563.5	561.7	1.3	1.7
Nonmanufacturing	6,470.9	6,399.7	6,375.2	1.1	1.5
Mining	273.0	269.7	264.2	1.2	3.3
Construction	514.2	489.7	540.7	5.0	-4.9
Transportation and public utilities	503.0	495.8	509.8	1.5	-1.3
Trade	1,861.1	1,838.5	1,815.6	1.2	2.5
Finance	427.7	424.3	420.5	.8	1.7
Service	1,327.7	1,327.6	1,301.4	.0	2.0
Government	1,564.3	1,554.1	1,523.0	.7%	2.7%

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)

lier. Total placements for the nation, on the other hand, were up only 5 percent.

- The recession slowed the rate of industrial expansion in Texas in 1975. The number of new plants constructed in the state fell to 192, down from 293 in 1974. Meanwhile, the number of plant expansions fell to 287 from 330 a year earlier.

By area, Dallas-Ft. Worth led the state in industrial expansion, followed by Houston, Longview, and San Antonio. By industry, nonelectrical machinery manufacturers paced the expansion. Manufacturers of fabricated metal products, chemicals and allied products, and food and kindred products also increased capacity.