

Federal Reserve Bank of Dallas

Annual Report to the Board of Directors

Submitted by
R. R. Gilbert, President

February 5, 1949



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ECONOMIC DEVELOPMENTS IN 1948 IN THE ELEVENTH FEDERAL RESERVE DISTRICT

Continuation of a strong demand for the goods and services of the basic industries of the country resulted in virtually full production and the maintenance of a very high level of employment in the Nation throughout the year. Most of the major indexes of economic activity reached or exceeded former peacetime records at one time or another. The Nation's total industrial production ranged between 191 percent and 195 percent of the 1935-39 average except during two months when labor difficulties and mass vacations in industry brought about temporary declines. Civilian employment reached its peak in July, when 61,615,000 workers were employed. During the last half of the year a moderate seasonal decline occurred, but in December approximately 1,000,000 more workers were employed than during the same month a year earlier. Following a decline during the first quarter of the year, wholesale prices and the cost of living rose steadily to reach all-time highs in August. At that time an improved supply-demand relationship and noticeably stronger price resistance checked the advance and, as a result, the trend turned downward slightly during the last quarter of the year.

Despite these record developments which occurred on the national economic scene, there were recurrent evidences during the year that the inflationary pressures had spent their force in numerous areas of economic activity. In fact, it appeared that the country had made much progress in "growing up" to the excessive, war-created volume of purchasing power. The sharp break in the prices of agricultural commodities during the first quarter of the year, an increased resistance on the part of buyers in the real-estate and in various durable goods markets, and a slowing down of the rate of business expansion during the last quarter of the year, all reflected the effect of full production, the impact of rising prices on consumer incomes, and the return of competition and a buyers' market in many lines of goods.

Another indication of the increased pressures developing in business is the rising number of business failures. Although fail-

ures are still relatively few in comparison with those of prewar years, a steady upward trend in the number of failures and a decrease in the average liability of defaulting firms seem to suggest that smaller concerns—and especially those which have been established since the end of the war—are finding it difficult to maintain profitable operations under conditions of higher operating costs, keener competition, uncertain price trends, and more difficult credit problems.

In the Eleventh Federal Reserve District the dollar volume of department store sales reached a new peak during 1948, while the percentage increase over 1947 equaled or exceeded that of any other district. Sales during the first nine months of the year were about 12 percent above those of the corresponding period of 1947, and even though consumer buying during the fourth quarter of the year was at a less rapid pace, the gain in sales for the full year amounted to 9 percent. The same factors which stimulated a large volume of sales for the Nation as a whole were effective in bringing about the same result in this District. Record consumer incomes, a higher level of employment at increased wage rates, continued full production in most lines of activity, favorable agricultural incomes despite the lower level of agricultural production, and a strong demand for the petroleum products of the area, all combined to assure a very high level of trade.

In this District as in the country as a whole, however, evidences of readjustments were apparent. An improved supply of goods provided consumers with the opportunity of broader selection, while increased prices exerted pressure upon purchasing power; as a consequence, increased competition and developing buyers' markets were noticeably characteristic of trade activity during the last quarter of the year. The underlying strength of consumer purchasing power at slightly lower price levels, however, was clearly evident from the results obtained by merchants who resorted to clearance sales, store-wide promotions, and price reductions to support their dollar volume of sales. Such practices not only stimulated sales but also tended to prevent the development of a dangerous inventory situation, as consumers were induced to purchase slower moving merchandise in response to the price reductions offered.

The use of consumer credit in the form of charge accounts and instalment accounts increased significantly during the year. After

the re-establishment of Regulation W on September 20 the rate of increase in instalment credit became perceptibly slower, although the outstanding volume of charge accounts continued to increase substantially to the end of the year. Credit sales at department stores in the District represented 63 percent of total sales during December 1948 as compared with 61 percent during the same month a year earlier. Moreover, collections became slower as the year progressed.

Perhaps the two most important developments affecting agriculture in the Eleventh Federal Reserve District during 1948 were the continuation of the drought over wide areas and the decline in prices received by farmers for most commodities.

Because of the unfavorable weather, total agricultural production during 1948 in the five states of this District was substantially less than that of 1947. Larger crops of cotton, grain sorghums, and a few other minor commodities were harvested, but the increase in production of these crops was not sufficient to offset the sharp declines reported for winter wheat, oats, and other products. Total crop acreage harvested in 1948 in the District was about 49,000,000, in contrast with 50,300,000 in 1947. Moreover, yields of most major crops were lower during 1948 than a year earlier.

Cotton production in the five states increased slightly due to larger crops in Arizona, Louisiana, New Mexico, and Oklahoma, for in Texas the crop of 3,200,000 bales was about 250,000 bales less than the 1947 crop. The production of small grains in the District declined about one-third below the crop of the preceding year, as wheat and oat crops were down 33 percent and 48 percent, respectively, to more than offset a small increase in the barley crop.

Range and livestock conditions in the District were strongly affected by adverse weather. At the end of the year the condition of ranges in Texas was generally poor and considerably below average, while ranges in New Mexico and Arizona were reported to be in fair condition but below average for the year-end season.

The farm value of Texas crops totaled \$1,147,386,000 in 1948, or approximately \$300,000,000 less than the total reported for 1947. However, although the 1948 total is about 21 percent below the record set in 1947, it is some 23 percent greater than the 1946 total.

All major divisions of industry in this District reached new peacetime peaks in employment and output during 1948 and in some cases even exceeded wartime records. At the year-end, manufacturing employment in Texas totaled about 405,400 persons and all nonfarm employment reached 2,350,000 persons. At the same time, unemployment in Texas declined toward the end of the year to a new postwar low of about 2 percent of the nonfarm labor force. Other indicators of industrial activity included an increase of about 12 percent in industrial power consumption in Texas and an increase of about 4 percent in miscellaneous carloadings in the southwestern freight district.

The petroleum industry enjoyed a record year, with crude oil production in the District averaging 2,689,000 barrels daily, or about 10 percent more than the previous record reached in 1947. Throughout most of the year the continued pressure of demand for petroleum products led to the payment of premiums above the higher prices for crude oil which were posted late in 1947. During the latter part of 1948, however, the easing of the supply situation and some softening in prices of petroleum products raised the question as to whether the postwar peak in petroleum prices might not have been reached. An easier supply situation in the petroleum industry in 1949 than in the previous year is expected as a result of larger crude oil stocks and some softening of demand. Drilling activity was maintained throughout the District on a large scale, with completions in 1948 approximating 14,000 wells, a record second only to the completions in 1937.

Construction activity in the District, as in the Nation, set a new postwar record in 1948, although the rise in construction costs permitted the dollar volume of construction to increase considerably even though the physical volume changed only moderately. The value of construction contracts awarded in the District during 1948 totaled \$782,000,000, or 15 percent above 1947 and second only to the 1942 wartime peak. Residential awards amounted to \$263,000,000, or 8 percent above the previous record reached in 1947. Commercial and institutional building also increased, but public utility and manufacturing construction declined considerably from the levels of the preceding year.

A factor contributing to the upward movement of construction contract awards, and an important potential factor in any future cost reductions, is the gradual easing that has occurred in the con-

struction materials situation. The production of practically every construction material increased during 1948, and the seasonal decline in construction during the winter months in most parts of the country permitted some increase of stocks. Lumber production appears to have been up slightly from 1947, while more pronounced gains were made in the case of brick and cement.

TREASURY FINANCING

During 1948, total marketable issues of Government securities declined from \$165,758,364,000 to \$157,482,090,000 as a result of the Treasury's retirement and refunding operations. This decrease of \$8,276,274,000, however, was offset in part by increases in nonmarketable issues, with the consequence that the total interest-bearing debt of the Government decreased from \$254,205,178,000 on December 31, 1947, to \$250,579,231,000 on December 31, 1948.

The Treasury continued the policy of retirement of Government securities by cash as its cash position permitted; moreover, policies of the Treasury and Federal Reserve System emphasized the retirement by cash of maturing and callable securities held by the Federal Reserve banks. Securities other than Treasury bills maturing or callable during 1948 amounted to approximately \$35,500,000,000, of which \$5,300,000,000 was retired by cash and \$30,200,000,000 was refunded. Cash retirement of maturing securities included \$3,600,000,000 of certificates of indebtedness, \$300,000,000 of Treasury notes, and \$1,400,000,000 of Treasury bonds. In addition, during the year the Treasury retired by cash approximately \$2,900,000,000 of Treasury bills. With the exception of one issue of $1\frac{1}{2}$ percent Treasury notes which was refunded into an issue of $1\frac{3}{8}$ percent $18\frac{1}{2}$ -month notes and a small issue of $2\frac{1}{2}$ percent bonds which was retired wholly by cash payment, issues of securities maturing or callable during the year were refunded with certificates of indebtedness. As a consequence, the amount of certificates of indebtedness outstanding increased during the year by \$5,305,099,000 while other Treasury issues showed declines.

In an attempt to gain the full advantage of deflationary influences that might ensue from debt retirement, the Treasury reduced its weekly bill offerings whenever its budgetary position permitted

and economic conditions seemed to warrant such action. A series of weekly reductions of \$100,000,000 each in offerings of Treasury bills was begun on January 15 and continued through April 8, except that the reduction on March 18 was \$200,000,000. Between April 8 and June 24, when the Treasury's budget position was somewhat less favorable and when the business outlook appeared momentarily less inflationary, the amount of new offerings equaled maturities. However, when it became evident that inflationary forces still were very strong, weekly reductions in offerings of Treasury bills amounting to \$100,000,000 each were resumed on July 1 and continued through September 9. Following a lapse of several weeks, the practice again was resumed on November 18 and continued through December 9. As a result of this policy, the amount of Treasury bills outstanding on December 31, 1948, totaled \$12,223,835,000 as compared with \$15,136,337,000 a year earlier.

In line with the policy of the Federal Open Market Committee and the Treasury of bringing about a moderate degree of firmness in short-term interest rates as an inflationary deterrent, the Treasury raised the interest rate on 12-month certificates of indebtedness from 1 percent to $1\frac{1}{8}$ percent with the issue dated January 1, 1948. Subsequent issues of certificates were offered at the $1\frac{1}{8}$ percent rate until October 1, when the rate was increased to $1\frac{1}{4}$ percent for the 12-month maturity.

The average interest rate on the total marketable public debt outstanding on December 31, 1948, was 1.979 percent as compared with an average rate on December 31, 1947, of 1.916 percent. The most substantial increases between these two dates in average interest rates on outstanding Government securities occurred in the average rates for Treasury bills and certificates of indebtedness. The average rate on Treasury bills outstanding rose from 0.915 percent on December 31, 1947, to 1.157 percent on the comparable date a year later, while the average rate on certificates of indebtedness outstanding rose from 0.892 percent to 1.158 percent during the same period. Smaller increases were reflected in the average rates on Treasury notes and Treasury bonds outstanding.

Throughout the year the Treasury emphasized the importance of continuing to hold and to buy United States savings bonds. In January and February a promotional campaign was carried out

by the Savings Bond Division of the Treasury to stress the importance of pay roll savings; from April 15 to July 15 the Security Loan Drive was aggressively sponsored; then from November 11 to December 7 another promotional campaign to reach the farm market and to re-emphasize pay roll savings was scheduled. In addition, during the Security Loan Drive a special offering was made to certain restricted classes of investors permitting them to increase their purchases within stated limits provided the purchases were made between July 1 and July 15.

Sales of savings bonds for the country as a whole reached \$7,295,000,000 during 1948, an increase of \$600,000,000 or 9 percent above sales in 1947, while redemptions of \$5,144,000,000 were only \$35,000,000 larger than during the preceding year. In this District, sales of \$206,000,000 were \$21,000,000 smaller than in 1947, while redemptions of \$236,000,000 were only \$10,000,000 less. As a consequence, the District's excess of redemptions over sales rose from \$19,000,000 in 1947 to \$30,000,000 in 1948.

On December 31, 1948, the Treasury's cash balance in its general fund was \$4,208,411,000, as compared with a balance of \$3,097,078,000 a year earlier.

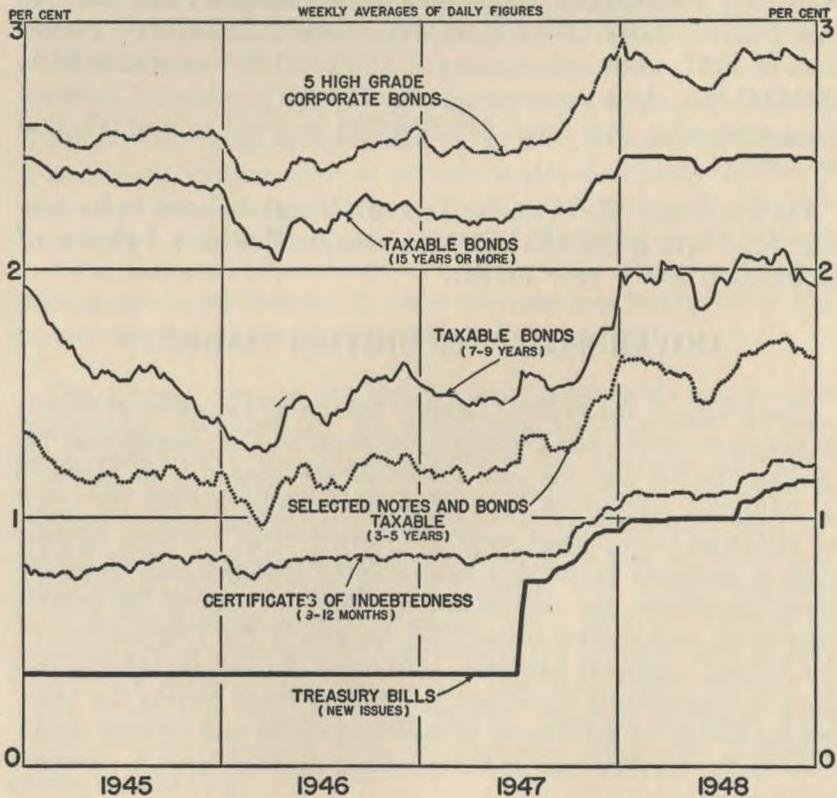
GOVERNMENT SECURITIES MARKET

The policy of the Federal Reserve System as shown in its efforts to maintain stable and orderly conditions in the Government securities market and the rate policy of the Treasury as reflected in refunding operations were primarily responsible for the trend of yields on Government securities during 1948. Various factors, such as increases in member bank reserve requirements, Treasury fiscal operations, the competitive demand for capital by private borrowers, and market uncertainty regarding the continuation of the System's support program, influenced the volume of transactions in Government securities at different times during the year, but the ability of the System to maintain stable and orderly conditions in the market even in the presence of considerable pressure was proved.

The average yield on 3-month Treasury bills rose gradually but steadily until mid-February and then leveled off and fluctuated within the comparatively narrow range of 0.996 percent and

0.998 percent until the second week in August. During this period of several months a closely similar trend, though at a slightly higher level, characterized the course of yields on certificates of indebtedness. Then in the second week in August, partly in response to the increasing fears of a resurgence of inflationary forces, yields on bills and certificates resumed an upward course, with the average yield on Treasury bills rising from 0.997 percent during the week ended August 7 to 1.155 percent during the week ended January 1, 1949, while 9- to 12-month certificates of indebtedness showed an increase in average yield from 1.10 percent to 1.22 percent during the same period.

YIELDS ON TREASURY AND CORPORATE SECURITIES



On the other hand, the average yield on long-term taxable Government bonds was comparatively stable throughout the year. On January 2, 1948, an average yield of 2.45 percent was reported,

in contrast with an average yield on December 31 of 2.44 percent. Moreover, during more than 10 months of the year the yield on long-term taxable bonds averaged either 2.45 percent or 2.44 percent. The principal deviation from this pattern of stability occurred between May 13 and June 23, when the average yield declined from 2.44 percent on May 12 to 2.39 percent on June 3 and then regained its loss to reach 2.44 percent again on June 23. During the remainder of the year a notable stability prevailed.

Strength in high-grade corporate bonds during the first half of the year was reflected in a decline in the average yield from 2.93 percent during the week ended January 3 to 2.72 percent for the week ended June 19. From that date until mid-August, yields rose gradually and then remained relatively constant until December, when renewed strength brought about declining yields. As a result of these developments, the average yield on high-grade corporates declined from 2.90 percent on January 2 to 2.76 percent on December 31, and the spread between yields of these issues and long-term taxable Governments narrowed from 0.45 percent on January 2 to 0.33 percent on December 31.

At times during the year, especially during the first quarter and then again from July through October, there was considerable uncertainty in some quarters of the financial markets regarding the continuance of the support program of the System or the level at which the System might continue to provide support. During such periods the market was frequently under very heavy pressure and purchases of Government bonds by the Federal Open Market Committee were very large. Moreover, increases in reserve requirements of member banks, and particularly the increases which became effective for all member banks during the latter part of September, also stimulated substantial offerings of bonds. Finally, a generally strong demand for funds by private corporations added to the pressure on the market.

It will be recalled that on December 24, 1947, the Federal Open Market Committee lowered the support price for the longest term Government bonds. The effect of that sudden move carried over into the new year, and between December 31, 1947, and February 18, 1948, net System purchases of Government bonds amounted to \$2,733,000,000. During that same period, however,

cash retirement of System holdings of Treasury bills and certificates of indebtedness and sales of such short-term issues in the market by the System were sufficient to more than offset the increase in holdings of Government bonds, with the consequence that the System's total holdings of Government securities declined by approximately \$1,616,000,000.

From mid-February until the end of June, pressure on the Government securities market was reduced considerably, and net purchases of Government bonds by the Federal Open Market Committee were comparatively small during most weeks of the period, while holdings of bills and certificates of indebtedness fluctuated more or less in accordance with reserve positions of banks and general money market factors.

Late in June, fears regarding the future level of support prices again developed. From the second week in July through November 10, very substantial offerings of restricted long-term issues appeared in the market, while some selling of taxable bank-eligibles also was evident. In order to maintain market stability under the support program of the System, the Federal Open Market Committee purchased during this period of extreme pressure approximately \$4,341,000,000 of restricted bonds, principally from insurance companies, although other nonbanking investors at times were a factor in the market. Net purchases of taxable bank-eligible securities during these same weeks amounted to approximately \$752,000,000. During the remainder of the year offerings of taxable bonds dwindled to comparatively minor amounts while the System reduced its holdings of partially tax-exempt bonds to meet the demand of savings banks and others seeking the advantage of the tax-exemption feature, in view of the possibility of increased taxes. Net changes in the System's holdings of Government securities between December 31, 1947, and December 31, 1948, are summarized in tabular form on page 15.

Between January 1 and December 31, 1948, changes in the prices of Government securities were comparatively moderate. The longest term restricted 2 $\frac{1}{2}$ percent Government bonds of December 67-72 were quoted on December 31, 1947, at a bid price of 100-8/32, while one year later the bid price for this issue was 100-15/32. The unrestricted or bank-eligible 2 $\frac{1}{2}$ s of September 67-72 rose from 101 on December 31, 1947, to 101-29/32 on

December 31, 1948, while the 2s of 52-54 rose from 101-4/32 to 101-12/32. As previously indicated, however, yields on Treasury bills and certificates of indebtedness rose significantly during the year. On December 31, 1947, the longest maturity of Treasury bills was quoted at a bid price of 0.96 percent discount, as compared with a 1.16 percent discount for the comparable maturity on December 31, 1948. Similarly, the most distant dated certificate was quoted at 1.24 percent, as compared with a quotation for the comparable maturity a year earlier of 1.08 percent.

MEMBER BANK RESERVES AND RELATED FACTORS

During 1948, changes in factors influencing member bank reserves resulted in a net increase of \$2,339,000,000 in the reserve balances of member banks. Principal factors which added to member bank reserves during the year were an increase in Reserve bank credit amounting to \$932,000,000 and an increase in the monetary gold stock of \$1,482,000,000, together with a reduction in the volume of money in circulation of \$543,000,000. Minor changes in the amounts of Treasury and national bank currency outstanding and in Treasury cash balances also added slightly to reserves. On the other hand, increases in Treasury deposits with Reserve banks, nonmember bank deposits, and other Federal Reserve accounts partially offset expansive factors.

Despite the substantial increase that occurred during the year in member bank reserve balances, estimated excess reserves of the member banks of the System declined from \$1,499,000,000 on December 31, 1947, to \$1,050,000,000 on December 29, 1948, as a result of a very substantial increase in required reserves. The increase of \$2,788,000,000 in required reserves of member banks was a consequence of the three increases in reserve requirements which were made effective for central reserve city banks during February and June and for all member banks during September.

Although there were intermittent short periods when the reserve positions of member banks were under considerable pressure, the three periods of strongest and perhaps most continuous pressure occurred during the first quarter of the year and during September and the last half of December. At other times the reserve positions of member banks varied from comparatively easy to moderately firm.

SUPPLY AND USE OF MEMBER BANK RESERVE FUNDS
(In millions of dollars)

	December 29, 1948	December 31, 1947	<i>Changes that added to reserves</i>	<i>Changes that reduced reserves</i>
Reserve bank credit.....	\$24,113	\$23,181	\$+ 932	
Monetary gold stock.....	24,236	22,754	+1,482	
Treasury and national bank currency.....	4,585	4,562	+ 23	
Money in circulation.....	28,325	28,868	— 543	
Treasury cash.....	1,329	1,336	— 7	
Treasury deposits with Reserve banks.....	1,283	870		\$+413
Nonmember deposits.....	1,106	961		+145
Other Federal Reserve accounts.....	653	563		+ 90
Total.....			\$ 2,987	\$ 648
Member bank reserve balances held.....	\$20,238	\$17,899	\$+2,339	
Estimated required reserves.....	19,188	16,400	+2,788	
Estimated excess reserves.....	1,050	1,499	— 449	

During the first three months of the year the substantial excess of Treasury receipts over expenditures, together with the retirement of Government securities held by the Federal Reserve System, drew heavily upon member banks' reserves. In addition, during that quarter the first increase in reserve requirements of central reserve city banks was ordered by the Board of Governors.

Late in May and again in June, Treasury transactions exerted considerable pressure upon reserves, tending to offset in part the expansive influence of gold imports and other factors. The second increase in reserve requirements of central reserve city banks also contributed to the tightness of reserve positions in June.

During the last half of the year reserve positions of member banks were free of any considerable pressure, except during September when reserve requirements were increased and during the last half of December when Treasury operations were the main cause of tightness. A steady influx of gold and substantial purchases of Government securities by the System, principally from nonbanking investors, were the major factors tending to ease reserve positions during the period.

Holdings of Government securities by the Federal Reserve System rose by only \$774,000,000 during 1948, despite the fact that purchase and sale transactions were exceptionally large at times during the year. Perhaps more important than the increase in total holdings of Government securities by the System during the year were the changes which occurred in the composition of the System's Government securities portfolio. During the year the

System reduced its holdings of Treasury bills, certificates of indebtedness, and Treasury notes but added very substantially to its investment in Treasury bonds. As a consequence of these changes, Treasury bonds represented 47.1 percent of the System's holdings of Government securities at the end of 1948 in contrast with 12.7 percent on the comparable date a year earlier. Figures summarizing these changes are shown in the following table:

**HOLDINGS OF GOVERNMENT SECURITIES BY THE
FEDERAL RESERVE SYSTEM**

(Amounts in millions of dollars)

<i>Type of security</i>	<i>Dec. 31, 1948</i>	<i>Percent of total</i>	<i>Dec. 31, 1947</i>	<i>Percent of total</i>	<i>Net change</i>
Treasury bills	\$ 5,487	23.5	\$11,433	50.7	\$-5,946
Certificates of indebtedness.....	6,078	26.0	6,796	30.1	— 718
Treasury notes	791	3.4	1,477	6.5	— 686
Treasury bonds	10,977	47.1	2,853	12.7	+8,124
Total	\$23,333	100.0	\$22,559	100.0	\$+ 774

**WEEKLY REPORTING MEMBER BANKS
UNITED STATES**

Among the factors which were influential in shaping the trend of principal asset and liability accounts of weekly reporting member banks in the United States during 1948 were the fiscal operations of the Treasury; somewhat restrictive credit policies, especially regarding bank reserves; a continuing demand for bank credit by business and industry; and a steady net inward movement of gold.

Although the Treasury followed a policy during the year of retiring Treasury bills whenever its cash position seemed to make such action practicable, the most substantial debt retirement occurred during the first quarter when the Treasury's cash receipts were more than \$6,400,000,000 in excess of payments. Consequently, between January and March considerable pressure was placed on bank reserves, and demand deposits adjusted of the weekly reporting member banks declined by more than \$3,300,000,000. Holdings of United States Government securities also declined sharply during this period as reported totals moved downward from \$37,227,000,000 on December 31, 1947, to \$34,433,000,000 on March 31, 1948. Another factor contributing to the pressure on reserves and to the decline in holdings of Government

securities during the first quarter of the year was an increase of 2 percentage points in reserve requirements against demand deposits at central reserve city banks which became effective February 27.

Moderately restrictive credit policies in the form of higher rates on short-term Government securities and increases in member bank reserve requirements influenced the trend of asset and liability items of the weekly reporting member banks at various times during the year. In general, banks tended to meet increased reserve requirements by reducing their holdings of Government securities. This tendency was reflected in a decline in holdings of Government securities during June of more than \$500,000,000, following the increase of 2 percentage points in reserve requirements against demand deposits of central reserve city banks effective June 11, and a decline of almost \$2,200,000,000 in holdings of Government securities between August 25 and September 29, largely in response to increased reserve requirements of 2 percentage points against demand deposits and $1\frac{1}{2}$ percentage points against time deposits effective on September 16 and September 24, respectively, for country banks and other classes of banks.

The demand for bank credit by business and industry continued comparatively strong during the year but was less pressing than a year earlier. Moreover, banks appeared to follow a somewhat more selective credit policy, with the consequence that the loan increase at weekly reporting member banks in the United States during 1948 amounted to \$2,337,000,000, or an increase of 10.0 percent, in contrast with the increase experienced during 1947 which amounted to \$3,912,000,000, or 20.1 percent. During the first five months of 1948 total loans of weekly reporting member banks more or less followed a normal seasonal pattern, declining gradually. After remaining relatively stable during the summer months of the year, the loan trend turned upward as the outstanding volume of loans increased to \$25,812,000,000 on December 29, 1948.

Following the decline in deposits which occurred during the first quarter of the year, demand deposits of these banks rose during April and then remained relatively stable through September. During the last quarter of the year demand deposits adjusted increased gradually but did not reach the level which

was reported at the end of December 1947. For the year as a whole, demand deposits adjusted declined at the weekly reporting member banks by \$891,000,000, or 1.8 percent.

Investments of the weekly reporting member banks declined from \$41,487,000,000 on December 31, 1947, to \$37,192,000,000 on December 29, 1948, with all of the decline being due to a reduction in holdings of United States Government securities. During 1948 weekly reporting member banks reduced their portfolios of United States Government securities by 11.4 percent, which, together with a minor reduction in holdings of other securities, resulted in a shrinkage of 10.4 percent in total investments.

WEEKLY REPORTING MEMBER BANKS ELEVENTH FEDERAL RESERVE DISTRICT

Changes in the principal asset and liability accounts of the weekly reporting member banks in this District between December 31, 1947, and December 29, 1948, included increases in total deposits and loans and discounts and decreases in investments and in balances with correspondents. The rate of increase of deposits and loans during 1948, however, was notably less than that which occurred during 1947, while the decrease in investments was somewhat larger.

Total deposits of the reporting banks in this District increased \$95,000,000 during 1948 as compared with an increase of \$217,000,000 during the preceding year. The increase in total deposits between December 31, 1947, and the latest reporting date in 1948 was the result of increases in demand deposits adjusted of \$146,000,000 and increases of \$32,000,000 and \$12,000,000 in time deposits and United States Government deposits, respectively, offset in part by a decline of \$95,000,000 in interbank deposits.

Adjusted demand deposits of this group of banks followed an irregular downward trend during the first three months of the year, reaching a low point of \$1,810,000,000 on March 31. During the remainder of the year an upward trend prevailed, broken only by occasional weekly declines. As a consequence, adjusted demand deposits reached a peak of approximately \$2,015,000,000 on December 15, 1948, and then declined moderately during the

remainder of the year. The trend of deposits in this District was influenced during the first three months of the year by the large-scale debt retirement program of the Treasury which extended through March and by business hesitancy aroused by the sharp break in the prices of agricultural products early in the year. During the remainder of the year the strength of business and economic activity supported a gradually increasing volume of deposits.

Total loans of the weekly reporting banks in this District increased about \$114,000,000 during the year, reflecting increases of \$71,000,000 in commercial, industrial, and agricultural loans, \$11,000,000 in real-estate loans, and \$37,000,000 in loans classified as "all other" and including consumer borrowings. This last category of loans showed a strong demand throughout most of the year, while real-estate loans showed a gradual upward trend through October and then declined slightly during the remaining nine weeks of the year. Commercial, industrial, and agricultural loans declined steadily during the first half of the year to reach a low figure for 1948 of about \$683,000,000 on June 9. Thereafter, a steady upward movement occurred, bringing the total of this major category of loans to approximately \$783,000,000 on December 29. The increase in total loans of the weekly reporting member banks in this District was substantially less during 1948 than a year earlier, the percentage increase for 1948 being 11.1 percent as contrasted with an increase of 18.5 percent during the preceding year.

Several factors accounted for the slower upward loan trend during 1948. In the first place, the monetary and credit authorities followed more restrictive credit policies, especially during the last half of the year, than had been the case during 1947. Then too, the Voluntary Credit Control Program of the American Bankers Association, which was generally supported by leading member banks in this District, helped to minimize loans of a speculative and inflationary character. Finally, the noticeably slower rate of increase in the expansion of business activity, together with increased cautiousness and selectivity on the part of commercial bankers, also was a restraining influence.

Total investments of the reporting banks in the District declined approximately \$24,000,000 during the year as a result of a decline in holdings of United States Government securities amount-

ing to \$36,000,000, offset in part by an increase in holdings of other securities. Weekly reporting banks in the District increased their holdings of Treasury bills and certificates of indebtedness during the year by about \$45,000,000 and \$77,000,000, respectively, while their investments in Government bonds were reduced from about \$846,000,000 at the end of December 1947 to some \$719,000,000 at the end of 1948. In addition, holdings of Treasury notes declined by approximately \$31,000,000.

Factors contributing to changes in holdings of Government securities by the weekly reporting member banks included the change in the support price level which was announced late in December 1947 and which was followed by rather substantial sales of bonds, the more attractive rates on bills and certificates, the desire at times for greater liquidity, and increased pressure on reserves when loan demand was very strong.

Principal asset and liability accounts of the weekly reporting member banks in this District, together with the percentage change in each item for the District and the United States, are shown in tabular form below:

(Amounts in millions of dollars)	Eleventh Federal Reserve District			Percentage change	
	Dec. 29, 1948	Dec. 31, 1947	Net change	Eleventh District	United States
Deposits—total	\$3,063	\$2,968	\$+ 95	+ 3.2	— 1.4
Demand deposits—adjusted	1,998	1,852	+146	+ 7.9	— 1.8
Time deposits	417	385	+ 32	+ 8.3	+ 2.9
United States Government deposits.....	36	24	+ 12	+50.0	+55.7
Interbank deposits	612	707	— 95	—13.4	— 9.1
Loans	1,139	1,025	+114	+11.1	+10.0
Investments	1,203	1,227	— 24	— 2.0	—10.4
United States Government securities.....	1,082	1,118	— 36	— 3.2	—11.4
Other securities	121	109	+ 12	+11.0	— 1.3
Balances with correspondents.....	300	323	— 23	— 7.1	—16.6

INTERNAL OPERATIONS

RESEARCH ACTIVITIES

The work of the Research Department during 1948 included the basic statistical and reporting services; the publication of the *Monthly Business Review*, the *Agricultural News Letter*, and special bulletins; active participation in bank and public relations activities through such media as bankers' forums, radio presentation, articles written for outside publications, and public ad-

dresses; the handling of a growing number of requests from banks, businesses, and others for miscellaneous statistical and economic information; and numerous services to the directors, officers, and other departments of the bank. Businesses and banks in the District continued to show much interest in such basic statistical services as the releases covering department store sales and inventories, the monthly report of bank debits in the principal cities of the District, the weekly report of condition of selected member banks in leading cities of the District, and the midyear and year-end studies of member bank operating ratios. One of the most important services, however, of the Statistical and Reporting Section of the Research Department is the ability to supply promptly on request specific items of statistical or economic information to a steadily growing number of banks and businesses which have shown an increasing tendency to use the Research Department of this bank as a source of such information.

Regular circulation of the *Monthly Business Review* at the end of December 1948 was 3,423 as compared with a circulation of 2,946 at the end of 1947, or a net increase of 477. During the same period the regular circulation of the *Agricultural News Letter* showed a net increase of 349, bringing the monthly circulation of that publication to 2,475 at the end of 1948. Evidence of the strong interest in these publications is reflected in the frequent requests for additional copies, which on a number of occasions have required reprints running into several hundred copies. No basic changes in either of these publications are contemplated during 1949, although it is probable that new features will be added from time to time to improve their quality and to strengthen their favorable acceptance. The script for the bank's weekly radio broadcast was prepared and presented throughout the year by the Research Department.

Other major bank and public relations activities undertaken during the year included the preparation of economic data for a publication, "Economic and Banking Problems of the East Texas Area," and a graphic pamphlet, "Economic and Banking Trends in Texas." Five hundred copies of each of these publications were distributed on a selective basis to banking and business leaders. In addition, the department contributed considerable time and effort to the Texas Savings Bond Division of the United States Treasury to assist it in its promotional and sales activities.

The efficiency of operations and the volume of work accomplished by the department during 1948 probably were affected somewhat by the loss of three experienced staff members during the first six months of the year. Although satisfactory replacements for these economists were obtained, a considerable period of orientation and development was inevitable. The problem of obtaining competent personnel at the professional level continues difficult, especially in the field of finance and central banking. Efforts will continue to be made to strengthen the department's personnel by supervised training, organizational improvement, and essential staff additions.

BANK AND PUBLIC RELATIONS ACTIVITIES

The major objectives of the bank and public relations program formally approved by the Board of Directors early in 1947 were largely achieved during the year. Activities in most phases of the program were broadened, and their effectiveness is evident in the increased demand for speakers and for special articles, more numerous inquiries for economic information, the responsiveness of outside contacts in furnishing information on business conditions, and a broadening interest in other activities such as bankers' forums and the weekly radio program. The following summary outlines briefly the principal activities during 1948:

Bank officers and representatives made 181 visits to non-member banks and 682 visits to member banks. These visits included about 90 percent of all member banks in the District.

Representatives of the bank addressed 60 meetings of banking, civic, trade, and educational organizations, at which the total attendance approximated 6,650 people. The bank also had one or more representatives at 135 other meetings of such organizations, at which the total attendance aggregated 50,000 persons. A total of 1,418 individuals, consisting of 633 students, 482 bankers, and 303 businessmen and others, visited this bank and its branches. In each instance, the total for 1948 was greatly in excess of that for 1947.

The bank sponsored five bankers' forums, which were held at Huntsville, Longview, Lufkin, Mount Pleasant, and Tyler, Texas. The area covered by these forums, comprising 43

counties in East Texas, included 85 member banks and 150 nonmember banks. These forums were well-received by the bankers in attendance, and there has been a continuing demand for copies of the forum booklet, as well as for booklets prepared for earlier forums. A special forum-type discussion of economic and banking trends in Texas was presented at the Texas Bankers Conference in Austin sponsored jointly by the University of Texas and the Texas Bankers Association. Booklets were also prepared and used as a basis for the forum discussions, and subsequent requests for copies have depleted the supply.

The bank's weekly radio program, "Your Southwest Business Review," over Station WFAA-570, Dallas, Texas, was continued throughout 1948. Frequent favorable comments from bankers and businessmen in widely scattered areas of the District are indications of the interest in and the value of the program.

On June 10, 1948, the bank sponsored a dinner meeting in Houston, Texas, attended by a representative group of leading bankers in that city and by the directors of the bank and its Houston Branch. Governor Clayton of the Board of Governors visited Houston and San Antonio on October 20 and 21, respectively, to attend the meetings of the boards of directors of those branches. A luncheon meeting was held in each city which was attended by the senior officers of local banks and the directors and officers of the respective branches. On the occasion of the joint meeting of the boards of directors of the bank and its three branches held on November 12, 1948, the bank also sponsored a dinner meeting attended by 135 guests, consisting of leading bankers and businessmen of Dallas and the directors of this bank and its branches. Allan Sproul, President of the Federal Reserve Bank of New York, was the principal speaker at this dinner meeting.

The various activities of the bank received much favorable publicity during the year, including comments and editorials in newspapers and financial periodicals relating to speeches delivered, articles published, and material contained in the bank's regular publications. In addition, frequent news stories were published relating to the bank's activities, public appearances of staff mem-

bers, admissions of new member banks, meetings participated in by the bank's representatives, changes in the bank's official staff, and appointment or election of members of the boards of directors of the Head Office and branches.

LEGAL ACTIVITIES

Since the bank was not involved in any litigation during 1948, the legal activities were of a general nature and those usual to the office of counsel. These included the rendering of both written and oral opinions on various legal problems arising under the general laws as well as under national and state banking laws. Legal analysis and comment with reference to a proposed revision of the Negotiable Instruments Law were made, and several of the bank's operating bulletins were reviewed. Applications for membership in the Federal Reserve System and similar matters, such as amendments to charters of member banks, have come to the attention of Counsel, and opinions have been rendered with reference to the legal aspects. In addition, Counsel has rendered general service, such as preparing and approving contracts and leases which concern the bank and its branches, discussing with the officers of the bank the interpretation and application of the regulations, investigating accidents, analyzing insurance contracts, and other similar matters.

AUDITING ACTIVITIES

The examining staff of the Board of Governors made a regular examination of this bank and its branches during April and May 1948. In addition, the Auditing Department maintained throughout the year the audit frequency schedule as adopted by the Conference of Auditors of Federal Reserve banks and approved by the Audit Review Committee of the Board of Directors of this bank. During the year, the Audit Review Committee held three meetings for the purpose of reviewing audit reports and discussing audit procedures with the General Auditor. Throughout the year, the General Auditor consulted frequently with the officers of the bank regarding changes in accounting procedures and new accounting methods.

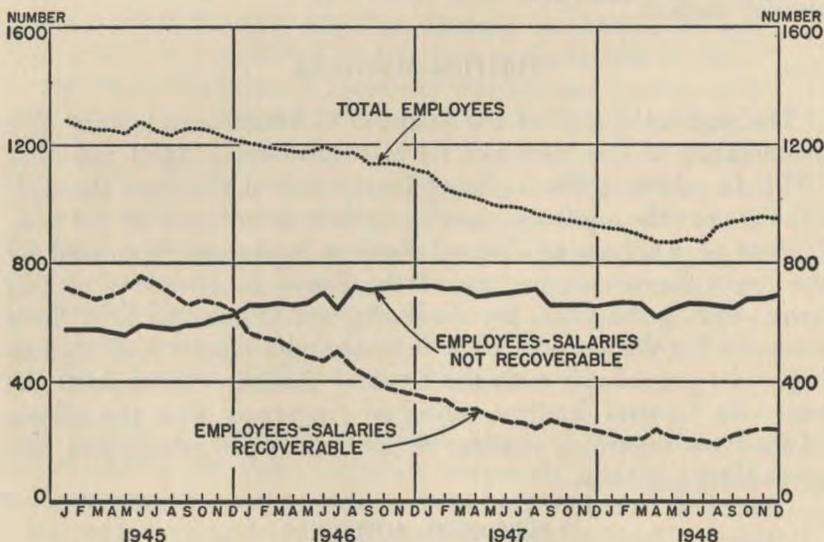
PERSONNEL ACTIVITIES

During 1948, close attention was given to the maintenance of the Job Classification and Salary Administration Plan which be-

came effective on October 1, 1947. In carrying out that responsibility, special efforts were made to keep job descriptions, specifications, evaluation, and grading on a current basis, and surveys of community salary rates and personnel policies were made during the spring and fall of 1948 in the Cities of Dallas, El Paso, Houston, and San Antonio. The number of employees with salaries in excess of their respective grade maximums had been reduced to 49 at the end of 1948 from 85 on the date the Job Classification and Salary Administration Plan was established. This reduction resulted partly from resignations but mostly from changes in assignments and in the importance of the jobs held by such employees.

On December 31, 1948, the personnel of this bank and its branches, including officers and employees, totaled 954 as compared with 920 on December 31, 1947. This increase of 34 reflected chiefly an increase in certain activities of the RFC-CCC Department and the re-establishment of the Consumer Credit Department.

TOTAL NUMBER OF EMPLOYEES, BY MONTH, 1945-1948
FEDERAL RESERVE BANK OF DALLAS



The annual salary rate of officers and employees at the Head Office and branches on December 31, 1948, amounted to \$2,402,-

000 as compared with \$2,335,000 on December 31, 1947. The net increase of \$67,000 was due in part to the increase in personnel and in part to salary adjustments based on meritorious performance of duties and promotions to more responsible jobs. At the end of 1948, the average annual salary of employees was \$2,340.

The combined rate of personnel turnover at the Head Office and branches for 1948 was 38 percent, or approximately the same as in 1947. While there were increases in the rates of turnover at the Head Office and Houston Branch, they were more than offset by the declines at the El Paso and San Antonio Branches. The increase at the Houston Branch raised the turnover rate in 1948 to 54 percent, a rate substantially above that of other offices, while the turnover rate at the El Paso Branch declined sharply, dropping to 32 percent from 74 percent in 1947.

On December 31, 1948, approximately 86 percent of the bank's personnel was enrolled under the Blue Cross insurance plan for hospitalization, medical, and surgical services, under which the bank pays two-thirds of the cost of the coverage. During the year the bank and its personnel paid premiums amounting to \$30,700 to the Blue Cross organization, and that organization paid approximately \$16,700 for hospital, medical, and surgical services rendered to officers and employees of the bank or their dependents.

In October 1948, the Board of Governors of the Federal Reserve System approved a policy for the uniform treatment of employees of the Federal Reserve banks entering service in the Armed Forces of the United States under the Selective Service Act of 1948, and that policy has been adopted by this bank. The policy, which provides for reinstatement of an employee, under certain conditions, at the expiration of his military service, reimbursement for part of the premiums paid on National Service Life insurance, the payment of one-half month's unearned salary at the time of entering military service, and the payment of an additional one-half month's unearned salary if and when the employee returns to service with the bank, accords employees substantially the same benefits as those made available to employees who entered military service during World War II.

In carrying out the policy of recognizing officers and employees who have had 25 years or more of continuous service, dinner

meetings were held on November 16, 1948, in the Head Office and branch cities, and service emblems were presented to 14 members of the staff who had completed 25 years of continuous service since the first annual dinners were held in 1947. On November 16, 1948, 101 officers and employees had attained the distinction of having 25 years or more of continuous service.

Employees continued to avail themselves of the counseling service instituted at the Head Office in 1947, which affords them an opportunity to discuss their personal problems privately and confidentially with designated counselors on the staff of the Personnel Department.

The commercial wired music service, which has been used in the recreation room, dining room, and Transit Department for some time, was extended during 1948 to three other operating departments.

RETIREMENT SYSTEM

There were no material changes during the year in the rules and regulations of the Retirement System of the Federal Reserve banks. On July 1, 1948, this bank's rate of current contribution was reduced from 10.10 percent to 10.08 percent of the bank's total pay roll. During 1948, four retirements were effected and three death claims were paid, bringing the total number of retirements effected at this bank to 68 and death claims paid to 31 since the Retirement System was inaugurated on March 1, 1934. At the end of 1948, 40 former officers and employees were receiving retirement allowances and seven had arranged for their retirement payments to be deferred.

PAY ROLL DEDUCTIONS FOR BOND PURCHASES

The officers and employees at the Head Office and branches purchased \$110,000 of Government securities during 1948 through the pay roll deduction plan. At the end of the year about 37 percent of the personnel was enrolled in the plan, and authorized deductions were at the rate of 4.25 percent of the bank's total pay roll. Since the pay roll deduction plan was inaugurated in April 1941, purchases of savings bonds by officers and employees of the bank have aggregated \$1,463,000.

BANK EXAMINATIONS

The Examination Department broadened its activities considerably during 1948 to cope with changing conditions and to render additional and more effective service in the supervision of member banks. The continued upward trend in the volume of loans under conditions of increasing competition among business concerns, the uncertainty as to the future trend of business in many lines, and the increasing number of business failures created credit problems which have not confronted bankers in recent years. This situation required this bank's examiners not only to appraise more carefully the loan portfolios of banks but also to stress to bankers the need for adequate credit files, for appropriate loan diversification and selectivity in credit extensions, and for aggressive collection policies. The increasing number of defalcations and the growing tendency of some customers of banks to indulge in questionable practices posed further problems for the examining staff, necessitating more careful scrutiny of audit procedures and of the nature and amount of fidelity bond coverage.

During the year the examining staff participated in 169 examinations, as compared with 173 in 1947. The following table summarizes the operations of the department during the two years:

	<i>Independent examinations</i>		<i>Joint examinations with state or other federal agencies</i>	
	<i>1948</i>	<i>1947</i>	<i>1948</i>	<i>1947</i>
State member banks.....	4	4	140	130
State bank applications for membership.....	3	12	8	6
Separate trust departments.....	1	1	10	11
Holding company affiliates.....	0	0	0	2
Applications to organize national banks.....	0	0	3	7
Total	8	17	161	156

Effective September 1, 1948, the Board of Governors promulgated a revision of Regulation H, simplifying and reducing the number of standard conditions of membership, and concurrently cancelled certain special conditions accepted by state banks at the time of their admission to membership in the Federal Reserve System.

An expanded program of analysis and review of examination reports was inaugurated by the Examination Department on January 1, 1948, as a means of having readily available information which would indicate the condition of, and trend of affairs at, member banks. Summaries of these analyses are circulated to the

officers of the bank who are members of the Discount Committee, for their information and guidance.

The bank's officers and staff maintained very pleasant and satisfactory relations with all of the federal and state bank supervisory authorities in this District.

REPORT ON BANKING DEVELOPMENTS

In 1947, the Board of Governors inaugurated a program of obtaining from Federal Reserve banks quarterly reports reflecting noteworthy developments in banking not ordinarily obtainable from statistical information. The report represents a composite summary of views and observations of the Federal Reserve banks' officers, examiners, and other personnel in direct contact with commercial bankers in their districts. These reports were continued during 1948, and they have been very beneficial to the Board of Governors and to the officers of this bank in helping them keep informed on developments in the field of banking and finance throughout the District and the Nation.

REGULATION OF INSTALMENT CREDIT

Under authority of the Joint Resolution of Congress, approved August 16, 1948, providing for the control of consumer instalment credit, the Board of Governors reissued Regulation W in substantially the same form in which it expired on November 1, 1947. The Regulation, which became effective September 20, 1948, controls instalment sales of twelve kinds of consumer durable goods and most instalment loans for consumer purposes. Instalment credits up to \$5,000 are within the scope of the Regulation. The Board's authority to control consumer instalment credit will expire June 30, 1949, unless extended by Congress.

Immediately following the effective date, a promotional and educational campaign relative to the Regulation was begun by this bank. Every effort was made to obtain registration statements from individuals, businesses, and banks subject to the Regulation. Circulars were mailed to all previous registrants, as well as to trade associations, chambers of commerce, banks, and new firms of which the bank had a record. Shortly before the November 19 deadline, further efforts to obtain registration were made, including a press release which was mailed to all newspapers in the District. Banks which had not filed statements were traced in No-

vember, and other concerns were traced again in December. On December 31, registration statements had been filed by 12,516 individuals and business concerns.

In accordance with instructions of the Board of Governors, this bank put into effect, on October 1, 1948, an enforcement program designed to accomplish as much in the nine-month period ending June 30, 1949, as was accomplished in a year under the earlier Regulation. During the fourth quarter of 1948 this bank's investigators visited 1,428 business enterprises, and their reports indicate that compliance with the provisions of the Regulation on the whole has been highly satisfactory. Most firms are cooperating fully because of their willingness to do so and also because they feel that the terms of the Regulation are consistent with good business practices. Intense competition has tended to strengthen compliance, since doubtful practices or newspaper advertising not consistent with the Regulation are reported to this bank promptly by competitors. The noncompliance cases have been dealt with promptly and a high degree of cooperation has been obtained from these registrants. Cooperative relations were established with state and federal supervisory authorities, with a view to obtaining adequate enforcement of Regulation W among lenders under their respective supervision.

Partly as an educational function and partly as an aid to the enforcement program, the investigators have called on banks, chambers of commerce, credit associations, and other trade organizations in each city or town visited, for the purpose of discussing Regulation W and acquainting the organizations with important features of the educational and enforcement programs. Representatives of the bank also have attended a number of meetings of merchants, bankers, and others to explain the Regulation and to answer inquiries.

As was the case in connection with previous consumer credit controls, the branches are administering the Regulation in their respective territories. Each branch has a full-time investigator, as compared with three at the Head Office.

MEMBERSHIP IN THE FEDERAL RESERVE SYSTEM

In the Eleventh Federal Reserve District the following state and national banks, seven of which were newly organized institu-

tions, were admitted to membership in the Federal Reserve System during 1948:

<i>Name of bank</i>	<i>Location</i>	<i>Deposits December 31, 1948</i>
First National Bank of Borger.....	Borger, Texas.....	\$1,592,000
Union State Bank.....	Carrizo Springs, Texas..	643,000
First National Bank in Lockney.....	Lockney, Texas.....	1,806,000
American State Bank.....	Lubbock, Texas	3,744,000
Peoples State Bank.....	Artesia, New Mexico.....	454,000
Empire State Bank of Dallas.....	Dallas, Texas	9,643,000
Alameda State Bank.....	Houston, Texas	2,550,000
The First State Bank.....	Abilene, Texas	1,572,000

Due to the voluntary liquidation of two national banks, membership in the Federal Reserve System in this District showed a net increase during the year of only six banks, and on December 31, 1948, totaled 620 banks, comprising 474 national banks and 146 state banks. This number, however, included one national bank and one state bank which entered voluntary liquidation during December but which had not surrendered their stock in the Federal Reserve Bank at the end of the year.

The admission of six state banks to membership during 1948 was the largest for any Federal Reserve district, but constituted only 18 percent of the total for the System as compared with 48 percent in 1947. On December 31, 1948, the state bank membership in the District was at the highest level since 1925 and ranked fifth among Federal Reserve districts.

The course of events during 1949 may influence strongly the number of membership applications received from state banks. If the downward trend in the number of newly chartered institutions continues, it is probable that fewer applications may be received from such banks. The number of nonmember banks eligible for membership has continued to increase, and inquiries received from several of them indicate their interest in membership. The desirability of having direct access to the facilities of this Federal Reserve Bank, particularly the discount facilities, might be a determining factor in their decisions to make application, especially if there should be a deterioration in economic conditions. On the other hand, the increase in the reserve requirements of mem-

ber banks during 1948 and the possibility of additional increases have caused dissatisfaction on the part of some member banks and may act as a strong deterrent to further membership applications from nonmember banks.

CHANGES IN CAPITAL STOCK

The paid-in capital stock of this bank reached an all-time peak of \$7,852,350 on December 31, 1948, and the increase of \$548,600 during the year exceeded that in 1947 by about \$110,000. Banks in this District admitted to membership in the System during 1948 purchased capital stock of this bank in the amount of \$63,000, while 291 existing member banks increased their holdings by \$490,550 as a consequence of increases in their capital and surplus accounts. During the year, cancellation of capital stock of this bank in the amount of \$4,700 was occasioned by the voluntary liquidation of two former member banks, while three member banks surrendered stock in the amount of \$250 because of reductions in their respective capital and surplus accounts.

The rapid growth of bank deposits during the war and postwar periods has created a need for larger capital structures of many banking institutions. The need for strengthening capital structures has been recognized by banks generally. Through the observance of conservative dividend policies permitting the addition of a large portion of profits to capital accounts and through the sale of additional stock to the public, considerable progress has been made in strengthening capital structures. The desirability of further strengthening capital accounts is emphasized by the substantial increase in loans and other risk assets during the past two years, the deterioration in the quality of some of these assets under more competitive business conditions, and the increase in losses being sustained by banking institutions. During 1948 the number of member banks which increased their capital and surplus accounts was slightly smaller than in 1947, but the amount of the increase was substantially larger.

NONMEMBER BANKS

The following nine newly organized nonmember state banks in the District, including one succession, began operation during 1948:

<i>Bank</i>	<i>Location</i>
Gibsland Bank.....	Gibsland, Louisiana
Citizens State Bank.....	Tucumcari, New Mexico
First State Bank.....	Crane, Texas
Grove State Bank.....	Dallas, Texas
First State Bank.....	El Paso, Texas
Bellaire State Bank.....	Houston, Texas
North Side State Bank.....	Houston, Texas
The First State Bank of Stratford.....	Stratford, Texas
The Terrell State Bank.....	Terrell, Texas

The effect of these additions upon the total number of non-member banks was offset in part by the voluntary liquidation of two banks, the conversion of one bank into a branch of a bank located in another district, the discontinuance of commercial banking functions by one bank, and the admission of one bank to membership in the Federal Reserve System. On December 31, 1948, there were 396 nonmember banks in the District, or four more than at the end of 1947.

PAR BANKS

On December 31, 1948, 905 active commercial banks in the District, or nine more than a year earlier, were remitting at par for checks drawn on themselves. During the year one former non-par bank and all except one of the newly organized banks agreed to remit at par. At the end of 1948 the number of nonpar banks remained at 109, comprising 58 banks in Texas, 49 banks in Louisiana, and 2 banks in Oklahoma.

NEW BANK ORGANIZATIONS

A total of 77 newly organized banks throughout the United States, excluding successions and conversions, opened for business during 1948. This number compares with 111 banks in 1947 and 144 in 1946. As in 1947, about 62 percent of the new organizations were concentrated in the Atlanta, Chicago, and Dallas Federal Reserve Districts. This District had only 15 new organizations in 1948 as compared with 30 in 1947. The Atlanta District had 20 new organizations in each year, while the Chicago District had 13 in 1948 as compared with 18 in 1947. The States of Texas and Illinois, which do not permit branch banking, led all other states in the number of new organizations. In many other states new

banking facilities were provided through the opening of branches of existing banks.

BANK FAILURES

The year 1948 was the seventh consecutive year in which there were no bank failures in this District. The latest information available indicates that no bank in the United States suspended operations in 1948, although one noninsured nonmember bank failed toward the close of 1947. While the continued high levels of business and industrial activity and the generally favorable earnings record of commercial banks have enabled most banks to absorb without difficulty a larger volume of net losses, the risk element inherent in the expanding loan portfolios of banks is becoming more pronounced under increasingly competitive business conditions. Moreover, the number of banks whose affairs require closer attention is increasing. These circumstances place added responsibility upon bank supervisory authorities for detecting and correcting unfavorable developments before they reach serious proportions.

FEDERAL RESERVE CREDIT

In view of the persistence of strong inflationary forces, accompanied by a further substantial growth in member bank loans to customers, the Federal Reserve System, in cooperation with the Treasury Department, continued to follow policies that would tend to counteract these developments. During the year the Treasury continued its program of using surplus funds to retire Government obligations, especially those held by the Federal Reserve System, and to increase interest rates on short-term Government securities, while the Federal Reserve banks raised discount rates and the Board of Governors utilized a portion of its authority to increase the reserve requirements of member banks. As a consequence of these policies, strong pressure was exerted upon the reserve positions of member banks in this District at certain periods, especially during the first quarter of the year when Government debt retirement was very large and in September when the general increase in reserve requirements became effective.

While member banks generally sold Government securities to adjust their reserve positions, several of them borrowed from the Federal Reserve bank to meet temporary deficiencies in required reserves. During the year 28 member banks borrowed \$180,376,000 from this bank, of which amount \$180,225,000 represented

advances to 25 member banks on their own notes secured by United States Government obligations and \$151,000 represented rediscounts of customers' notes for three member banks. As compared with 1947, there were increases of 13 in the number of borrowing banks and of \$28,000,000 in the total amount of borrowings.

With a view to further improvement in its services, this bank in the latter part of the year adopted a plan for the acceptance of custody receipts of approved correspondent member banks in this or other Federal Reserve districts covering United States Government securities as collateral for loans to member banks. One such receipt was accepted by this bank and held so it would be available as collateral during the crop season, but as the member bank did not find it necessary to borrow, the receipt was cancelled late in the year.

During 1948, this bank's participation in Government securities in the System Open Market Account averaged \$972,000,000, as compared with \$913,000,000 in 1947. It is the practice of the Federal Reserve banks to carry interest-bearing securities on their books at par value. When such securities are purchased in the open market at prices above par, the premiums are set up in a separate account and amortized over the life of the securities. The amounts of the outstanding premium balance in the System Open Market Account and of this bank's participation therein are shown below:

<i>Date</i>	<i>Premium balance in System Open Market Account</i>	<i>This bank's participation in Premium Account</i>
December 31, 1947.....	\$52,436,500.25	\$2,803,622.36
December 31, 1948.....	72,827,117.40	3,300,452.13

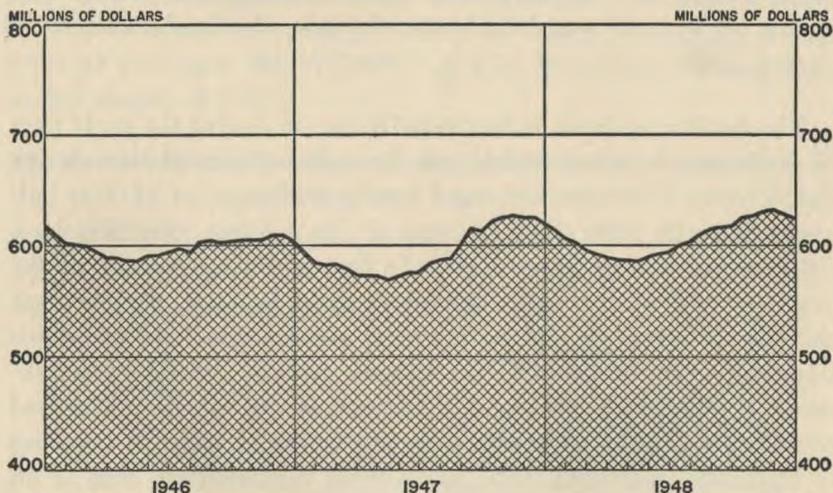
The increase in the premium balance during 1948 reflects the effect of the Federal Open Market Committee's heavy purchases of Treasury bonds in the open market at premium prices to carry out the policy of maintaining an orderly Government securities market. As a consequence of the Federal Open Market Committee's decision on December 24, 1947, to lower the support price for Treasury bonds, the increase in the premium balance during 1948 was smaller than in 1947, even though the volume of Treasury bond purchases was much larger.

FEDERAL RESERVE NOTE CIRCULATION

During the war period the circulation of this bank's Federal Reserve notes showed an almost uninterrupted increase, but since the war the month-to-month fluctuation has tended to revert to the prewar seasonal pattern. From the accompanying chart, this trend is apparent, for in each of the past three years the circulation has declined sharply from the Christmas holiday until May of the succeeding year and then has shown an upward trend until the following Christmas. In 1948, circulation during the early months of the year declined by \$37,700,000 and reached the year's low point at \$587,000,000 toward the end of May. During the remainder of the year circulation showed a steady upward trend, reflecting the need for currency to finance the harvesting and movement of agricultural products and to handle the larger pay rolls and the increased volume of cash transactions resulting from the seasonal

FEDERAL RESERVE NOTE CIRCULATION

FEDERAL RESERVE BANK OF DALLAS



expansion of trade and industry. Just prior to the Christmas holiday the bank's note circulation reached the year's high point of \$632,200,000, or only slightly under the all-time peak established in 1947. The rapid return flow of currency from circulation in the final week of the year reduced total circulation on December 31, 1948, to \$623,700,000, only \$1,000,000 less than the total a year earlier.

The circulation of the several denominations of Federal Reserve notes at the end of 1948 was not significantly different from that a year earlier. The principal changes were a decline of about \$2,000,000 in the circulation of notes of the \$5 denomination and a corresponding increase in the circulation of notes of the \$100 denomination.

DEPOSITS OF MEMBER BANKS

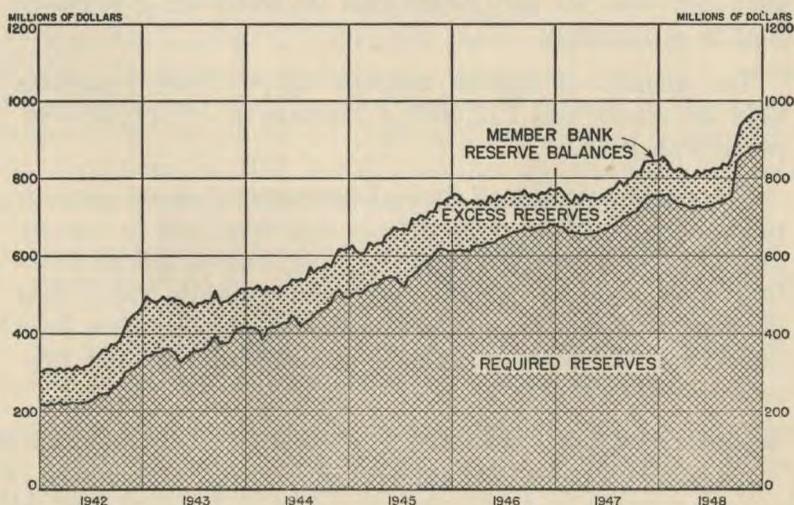
The aggregate deposits of member banks in this District, after showing a substantial seasonal decline between January and April, evidenced a steady upward trend during the remainder of 1948, reaching a new all-time peak during December. In that month deposits averaged \$6,022,000,000, which was \$188,000,000 higher than in December 1947 and \$460,000,000 above the year's low point reached in April. The increase apparently occurred at banks in all deposit size-groups and in all sections of the District and represented chiefly a growth in the deposits of individuals, partnerships, and corporations. Interbank deposits, which had shown an upward trend for several years, declined moderately during 1948.

The decline in deposits that usually occurs during the early part of each year is occasioned largely by substantial withdrawals for the payment of income taxes and for the settlement of adverse balances of trade with other sections of the country, resulting in a net outward movement of funds. In the remaining months of the year the trend of deposits is usually upward, because receipts from the sale of livestock and agricultural commodities and of industrial and other products of the District usually exceed by a substantial margin the volume of payments for goods purchased outside the District. Of course, the movement of loans in response to business, industrial, and agricultural requirements also is an important contributing factor in determining the level of deposits. In 1948 the increase in deposits from April to December was much smaller than in the corresponding period of 1947, largely because of the smaller receipts from agricultural products, a slower rate of expansion in the petroleum industry and, in fact, in business and trade generally, together with a somewhat smaller expansion of loans than occurred during the corresponding period of 1947.

MEMBER BANK RESERVE BALANCES

The reserve balances of member banks in the District declined moderately during the first four months of 1948 and then rose rapidly during subsequent months. The average of such balances during December amounted to \$971,000,000, or \$136,000,000 higher than the average for December 1947. From the accompanying chart it will be observed that the moderate downward movement in required reserves during the earlier months of the year was followed by a sharp upward trend in the remaining months of the year. The downward trend in the earlier part of the year was occasioned by the decrease in deposits at member banks, while the increase during the remainder of the year reflected not only the rise in deposits at member banks but also the increase in their reserve requirements, amounting to 2 percentage points on demand deposits and 1½ percentage points on time deposits, which became effective in the last half of September. Excess reserves remained fairly stable during the year, although there was a sharp temporary decline during the last half of September when the increase in reserve requirements became effective. During December, excess reserves averaged \$88,000,000, or only \$2,000,000 lower than in that month of 1947.

MEMBER BANK RESERVE BALANCES, REQUIRED RESERVES AND EXCESS RESERVES
ELEVENTH FEDERAL RESERVE DISTRICT



CASH DEPARTMENT OPERATIONS

The volume of operations in the Cash Department increased substantially during 1948. The principal changes in operations as compared with 1947 are shown below:

Incoming and outgoing shipments of currency and coin numbered 105,872 and amounted to \$1,286,000,000, representing increases over 1947 of 22,012 in number of shipments and \$89,000,000 in amount.

The number of pieces of currency received and counted totaled 119,360,000 with a value of \$675,000,000, an increase over 1947 of 10,028,000 in number and \$68,000,000 in value.

The number of coins received and counted was 194,625,000 with a value of \$15,102,000, representing increases over 1947 of 9,904,000 in number and of \$1,394,000 in amount.

The number of wire transfers of funds handled for member banks totaled 79,458 involving \$18,000,000,000. These figures represent increases over those in 1947 of 10 percent in the number of transfers and of 30 percent in amount.

Securities held in custody for member banks and others amounted to \$833,000,000 on December 31, 1948, a decrease of \$38,000,000 during the year. This decrease reflects a further withdrawal by banks of collateral pledged to secure war loan deposits and the redemption of securities previously held in safekeeping.

The number of interest coupons clipped from securities held in custody was 112,689, a decrease of 11,866 as compared with 1947.

The number of United States Government interest coupons paid, including those clipped from securities held in custody as well as those received from banks and others, totaled 350,000, a decrease of 140,000 as compared with 1947. This decrease reflected largely the fact that no coupons have been attached to Treasury certificates of indebtedness since September 1946.

During recent years this bank has experienced increasing difficulty in supplying adequate amounts of currency and coin to certain member banks in the South Plains area of Texas to meet their

day-to-day requirements during the cotton harvesting season. This difficulty has resulted from a postal regulation which limits to \$40,000 the total amount of daily shipments of currency and coin to all banks, regardless of the number, located on each star mail route. During the past two years the situation has become more aggravated in this rapidly developing area, largely as the result of increased farming activities and substantial oil developments and the high prices received for agricultural commodities and petroleum products. Since the postal authorities could not be induced to raise the daily limit on currency and coin shipments over these star mail routes, this bank provided convoy service one day each week during the harvesting season in the fourth quarter of 1948. Inasmuch as currency and coin shipments in unlimited amounts could be made on the days that convoy service was provided, member banks in the area were able to obtain ample currency and coin to supplement the limited shipments on other days. The cost of the convoy service for the three months amounted to \$607.

As a measure of economy, this bank made arrangements with an armored motor truck company to transport currency and coin to and from member banks in Fort Worth, Texas. This service, which became effective October 1, 1948, resulted in a saving of \$3,055 on such shipments during the fourth quarter of the year.

CHECK COLLECTIONS

The year 1948 was the sixteenth consecutive year in which the volume of checks and collection drafts handled by this bank was larger than in the previous year. During the year the Head Office and branches handled 111,000,000 checks aggregating \$37,485,000,000. These totals represent increases over 1947 of 4 percent in the number of items handled and of 8 percent in the amount involved. The record day in 1948 occurred on June 4 when 619,000 items were handled, but this number was considerably under the all-time peak of 733,000 items handled on November 8, 1946.

The number of dishonored checks returned by drawee banks to this bank in 1948 was 14 percent larger than in 1947, while the amount involved increased 24 percent. This substantial increase in the number of unpaid items handled reflects a trend that appears to be general throughout the banking system.

Further efforts were made during 1948 to expedite the collection of checks and drafts through the use of air mail and air express in cases where that service would reduce the collection

time or facilitate handling by the receiving banks. The experiment was satisfactory in most instances and enabled this bank to effect collection in several cases from one to two days earlier than would have been possible if the items had been dispatched by regular mail. This bank has granted 218 banks the privilege of sending checks and drafts direct to other Federal Reserve banks and branches for collection, but only 49 banks were making use of the privilege at the close of 1948. The purpose of this policy is to encourage the direct routing of checks and collection drafts, where the volume and amount are substantial, thereby speeding up their presentation and collection.

CHECK ROUTING SYMBOL PROGRAM

The program, instituted in 1945, of having a routing symbol placed on the checks of all par-remitting banks continued to make satisfactory progress during 1948. The symbol, constituting a series of numbers, readily identifies the Federal Reserve bank or branch at which checks of a given bank are receivable for collection. When the use of the symbol becomes general, the sorting and routing of checks by both commercial banks and Federal Reserve banks will be simplified greatly, thereby increasing the efficiency and speed of collecting out-of-town checks. Virtually all of the par-remitting banks in this District now have some checks in circulation bearing the routing symbol in the approved location.

A survey conducted as of December 1, 1948, shows that 69 percent of the checks reviewed had the routing symbol in the approved location, as compared with 56 percent a year earlier. The percentage in this District, while slightly less than that for the New York District, was equal to or greater than that for any other Federal Reserve district and was well above the 58 percent average for the country.

In July a large map of the United States showing the Federal Reserve districts and branch territories was forwarded to all par-remitting banks. This map, on which is shown a list of check routing symbols assigned to the par banks in each district, is designed to assist check collection clerks of commercial banks in identifying the district or territory in which a drawee bank is located. Throughout the year the program was encouraged through correspondence and personal contacts with banks, printers, and others concerned.

FISCAL AGENCY OPERATIONS

The volume of fiscal agency operations during 1948 was at about the same level as in 1947, but improvements in procedures and increased efficiency made possible a reduction of about 10 percent in the number of employees. In carrying out the Treasury's program of obtaining the maximum economy of operation without impairing the bank and public relations of Federal Reserve banks, this bank during the year transferred most of the work incident to processing withheld tax receipts from the branch offices to the Head Office.

On December 31, 1948, there were 1,214 agents qualified to issue savings bonds and 1,001 agents qualified to redeem them. Also, there were 701 banks qualified as war loan depositories and 579 banks qualified as withheld tax depositories.

The sale of Treasury savings notes increased appreciably after September 1, when a new series offering a higher yield was made available to investors. In consequence, total sales during the year aggregated \$46,000,000, or \$6,000,000 more than during 1947, while redemptions amounted to \$64,000,000, or \$18,000,000 less than in 1947.

The other principal activities relating to Government securities performed during 1948 included:

Handling weekly offerings of Treasury bills to refund maturing issues, with increases from 1947 of 115 percent in the number of tenders and 40 percent in the amount of allotments.

Alloting \$693,000,000 of certificates of indebtedness and Treasury notes on exchange subscriptions, representing about the same volume as in 1947.

Redeeming marketable Government securities aggregating \$1,214,000,000, a slight increase over the preceding year.

Redeeming Armed Forces leave bonds in the amount of \$18,000,000, as compared with \$87,000,000 in 1947.

Selling savings bonds aggregating \$206,000,000 and redeeming \$236,000,000 of such bonds, representing decreases of 10 percent and 4 percent, respectively, from 1947.

Holding for safekeeping the savings bonds of individual owners, which totaled 132,000 bonds on December 31, 1948, with a maturity value of \$13,750,000, as compared with 152,000 savings bonds with a maturity value of \$14,549,000 at the end of December 1947.

CUSTODIAN ACTIVITIES

The Reconstruction Finance Corporation completed during 1948 its decentralization program involving the transfer to its local loan agencies of certain accounting and loan-servicing functions previously performed by Federal Reserve banks as custodians. This bank's custodian activities for the Corporation are now limited to the receipt and disbursement of funds, the safekeeping of primary and collateral documents, the servicing of bond, debenture, and preferred stock purchases, and the handling of the defense supplies, rubber reserve, and metals reserve programs.

The Commodity Credit Division of the RFC-CCC Department, which had been relatively inactive during 1947, increased its operations considerably during 1948 when the decline in prices of agricultural commodities resulted in increased interest in the several Government commodity loan programs. Reflecting chiefly operations in connection with the 1948 cotton loan program, the department received and handled a large volume of producers' cotton loan notes. At the end of 1948 this bank held 212,000 producers' notes involving \$62,000,000, secured by 396,000 bales of cotton. During the year there were released to producers 36,800 notes in the face amount of \$9,700,000, secured by 81,600 bales of cotton. The department disbursed to lending agencies in connection with the 1948 cotton loan program approximately \$17,000,000 in cash and \$44,000,000 in certificates of interest. It also disbursed \$29,000,000 to cooperative marketing associations covering loans on cotton made to producers and \$110,000,000 to lending agents in connection with Government loan programs involving other agricultural commodities, chiefly wool, wheat, peanuts, and potatoes.

CUISINE SERVICE

Early in 1948 the bank's dining room was converted into a full cafeteria and a new plan of pricing each food item separately was instituted. A snack bar service was added for the use of employees at certain periods during the morning and afternoon. The opera-

tion of the dining room on a cafeteria basis has resulted in increased efficiency, thereby providing more satisfactory service and making possible a reduction in the net expense of operation.

During 1948 the total expense of operating the dining room and snack bar amounted to \$87,934 as compared with \$92,556 in 1947, a net decrease of \$4,622. Since total receipts for meals and other items amounted to \$55,048, this bank absorbed \$32,886 or 37 percent of the total cost of operation, as compared with 52 percent in 1947.

FEDERAL RESERVE BANK BUDGET

In October 1947, this bank submitted to the Board of Governors, after approval by the Board of Directors, separate budgets for the Head Office and the branches at El Paso, Houston, and San Antonio for the calendar year 1948. Through periodical reviews of expenditures in relation to budget estimates, the officers responsible for supervision of the several functions have kept in close touch with the cost of various operations in relation to the volume of work handled. While the expenses of some functional operations exceeded the amounts included in the budgets, the over-all expenses of the Head Office and of the Houston and San Antonio branches were within the total of their respective budgets for the year 1948, while the expenses of the El Paso Branch exceeded the budget by a very nominal amount.

