

Annual Report

FEDERAL RESERVE BANK OF DALLAS

1963

To the Member Banks in the
Eleventh Federal Reserve District:

The Statement of Condition and the earnings and expenses of the Federal Reserve Bank of Dallas for the year 1963, with comparative figures for 1962, are shown herein. Lists of the directors and officers of the Bank and its branches as of January 1, 1964, are also included.

A review of economic and financial developments in the Nation and the District during 1963 is being presented in the January 1964 Annual Report Issue of the *Business Review* of this Bank.

Additional copies of these publications may be obtained upon request to the Research Department, Federal Reserve Bank of Dallas, 400 South Akard Street (mailing address: Station K, Dallas, Texas 75222).

Sincerely yours,



WATROUS H. IRONS
President

Statement of Condition

	Dec. 31, 1963	Dec. 31, 1962
ASSETS		
Gold certificate account	\$ 515,499,705	\$ 540,732,347
Redemption fund for Federal Reserve notes	44,628,041	39,527,686
	<hr/>	<hr/>
Total gold certificate reserves	560,127,746	580,260,033
Federal Reserve notes of other Banks	22,625,000	19,473,000
Other cash	8,253,420	9,532,888
Discounts and advances	1,824,000	56,000
U. S. Government securities		
Bills	158,567,000	99,256,000
Certificates	270,566,000	535,780,000
Notes	678,845,000	435,604,000
Bonds	177,873,000	168,138,000
	<hr/>	<hr/>
Total U. S. Government securities	1,285,851,000	1,238,778,000
	<hr/>	<hr/>
Total loans and securities	1,287,675,000	1,238,834,000
Cash items in process of collection	307,096,327	309,128,280
Bank premises	11,895,354	12,579,815
Other assets	18,104,531	15,897,075
	<hr/>	<hr/>
TOTAL ASSETS	2,215,777,378	2,185,705,091
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES		
Federal Reserve notes in actual circulation	978,952,290	910,744,385
Deposits		
Member bank — reserve accounts	844,299,422	960,203,849
U. S. Treasurer — general account	50,523,088	34,752,085
Foreign	9,120,000	14,560,000
Other	4,255,040	4,009,754
	<hr/>	<hr/>
Total deposits	908,197,550	1,013,525,688
Deferred availability cash items	240,310,825	178,701,992
Other liabilities	3,162,013	2,537,026
	<hr/>	<hr/>
TOTAL LIABILITIES	2,130,622,678	2,105,509,091
	<hr/> <hr/>	<hr/> <hr/>
CAPITAL ACCOUNTS		
Capital paid in	28,384,900	26,732,000
Surplus	56,769,800	53,464,000
	<hr/>	<hr/>
TOTAL CAPITAL ACCOUNTS	85,154,700	80,196,000
	<hr/>	<hr/>
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	\$2,215,777,378	\$2,185,705,091
	<hr/> <hr/>	<hr/> <hr/>

Earnings and Expenses

	1963	1962
CURRENT EARNINGS		
Discounts and advances	\$ 585,957	\$ 269,378
U. S. Government securities	45,650,694	42,036,531
Foreign currencies	116,460	196,133
All other	22,852	18,072
TOTAL CURRENT EARNINGS	<u>46,375,963</u>	<u>42,520,114</u>
CURRENT EXPENSES		
Current operating expenses	9,373,164	8,933,333
Assessment for expenses of Board of Governors	434,400	374,700
Federal Reserve currency		
Original cost, including shipping charges	205,736	142,635
Cost of redemption, including shipping charges	36,805	33,146
Total	<u>10,050,105</u>	<u>9,483,814</u>
Less reimbursement for certain fiscal agency and other expenses	841,654	936,767
NET EXPENSES	<u>9,208,451</u>	<u>8,547,047</u>
PROFIT AND LOSS		
Current net earnings	37,167,513	33,973,067
Additions to current net earnings		
Profit on sales of U. S. Government securities (net)	11,845	80,701
All other	24,089	129,938
Total additions	<u>35,934</u>	<u>210,639</u>
Deductions from current net earnings	24,808	82,713
Net additions	<u>11,126</u>	<u>127,926</u>
Net earnings before payments to U. S. Treasury	<u>37,178,639</u>	<u>34,100,993</u>
Dividends paid	1,668,435	1,573,112
Paid U. S. Treasury (interest on F. R. notes)	32,204,404	28,872,781
Transferred to surplus	3,305,800	3,655,100
Surplus, January 1	53,464,000	49,808,900
Surplus, December 31	<u>56,769,800</u>	<u>53,464,000</u>

Officers

FEDERAL RESERVE BANK OF DALLAS

WATROUS H. IRONS, *President*

P. E. COLDWELL, *First Vice President*

ROY E. BOHNE, *Vice President*

JAMES L. CAUTHEN, *Vice President*

J. L. COOK, *Vice President*

RALPH T. GREEN, *Vice President*

T. A. HARDIN, *Vice President*

CARL H. MOORE, *Vice President*

G. R. MURFF, *Vice President and
Secretary of the Board*

JAMES A. PARKER, *Vice President*

T. W. PLANT, *Vice President and Cashier*

W. M. PRITCHETT, *Vice President*

THOMAS R. SULLIVAN, *Vice President*

ARTHUR H. LANG, *General Auditor*

GEORGE F. RUDY, *General Counsel*

ROBERT H. BOYKIN, *Assistant Counsel and
Assistant Secretary of the Board*

J. Z. ROWE, *Director of Research*

JAMES O. RUSSELL, *Chief Examiner*

LEON W. COWAN, *Assistant Vice President*

E. H. BERG, *Assistant Cashier*

FREDRIC W. REED, *Assistant Cashier*

TONY J. SALVAGGIO, *Assistant Cashier*

E. A. THAXTON, JR., *Assistant Cashier*

E. W. VORLOP, JR., *Assistant Cashier*

EL PASO BRANCH

ROY E. BOHNE, *Vice President in Charge*

T. C. ARNOLD, *Cashier*

FORREST E. COLEMAN, *Assistant Cashier*

HOUSTON BRANCH

J. L. COOK, *Vice President in Charge*

B. J. TROY, *Cashier*

W. C. HARTUNG, *Assistant Cashier*

RASCO R. STORY, *Assistant Cashier*

SAN ANTONIO BRANCH

CARL H. MOORE, *Vice President in Charge*

A. E. MUNDT, *Cashier*

ALVIN E. RUSSELL, *Assistant Cashier*

FREDERICK J. SCHMID, *Assistant Cashier*

Directors

FEDERAL RESERVE BANK OF DALLAS

- ROBERT O. ANDERSON (*Chairman and Federal Reserve Agent*), Owner, Lincoln County Livestock Company, Roswell, New Mexico
CARL J. THOMSEN (*Deputy Chairman*), Senior Vice President, Texas Instruments, Inc., Dallas, Texas
D. A. HULCY, Chairman of the Board, Lone Star Gas Company, Dallas, Texas
MAX LEVINE, President, Foley's, Houston, Texas
J. EDD McLAUGHLIN, President, Security State Bank & Trust Company, Ralls, Texas
J. B. PERRY, JR., President and General Manager, Perry Brothers, Inc., Lufkin, Texas
RALPH A. PORTER, Executive Vice President, The State National Bank of Denison, Denison, Texas
ROY RIDDEL, President, First National Bank at Lubbock, Lubbock, Texas
H. B. ZACHRY, President, H. B. Zachry Company, San Antonio, Texas

EL PASO BRANCH

- ROGER B. CORBETT, President, New Mexico State University, University Park, New Mexico
ROBERT W. HEYER, President, Southern Arizona Bank & Trust Company, Tucson, Arizona
DYSART E. HOLCOMB, Director of Research, El Paso Natural Gas Products Company, El Paso, Texas
JOSEPH F. IRVIN, President, Southwest National Bank of El Paso, El Paso, Texas
C. ROBERT McNALLY, JR., Rancher, Roswell, New Mexico
CHARLES B. PERRY, Chairman of the Board, First State Bank, Odessa, Texas
DICK ROGERS, President, First National Bank in Alpine, Alpine, Texas

HOUSTON BRANCH

- DONALD B. CAMPBELL, Works Manager, Sabine River Works, E. I. du Pont de Nemours & Company, Orange, Texas
J. A. ELKINS, JR., Chairman of the Board, First City National Bank of Houston, Houston, Texas
M. M. GALLOWAY, President, First Capitol Bank, West Columbia, Texas
JOHN E. GRAY, President, First Security National Bank of Beaumont, Beaumont, Texas
EDGAR H. HUDGINS, Ranching — Partner in Hudgins Division of J. D. Hudgins, Hungerford, Texas
J. W. McLEAN, President, Texas National Bank of Houston, Houston, Texas
LOVETT C. PETERS, Vice President — Transportation and Supplies, Continental Oil Company, Houston, Texas

SAN ANTONIO BRANCH

- G. C. HAGELSTEIN, President and General Manager, Union Stock Yards San Antonio, San Antonio, Texas
HAROLD D. HERNDON, Independent Oil Operator, San Antonio, Texas
MAX A. MANDEL, President, The Laredo National Bank, Laredo, Texas
FORREST M. SMITH, President, National Bank of Commerce of San Antonio, San Antonio, Texas
JOHN R. STOCKTON, Professor of Business Statistics and Director of Bureau of Business Research, The University of Texas, Austin, Texas
DWIGHT D. TAYLOR, President, Pan American State Bank, Brownsville, Texas
J. R. THORNTON, Chairman of the Board and President, State Bank and Trust Company, San Marcos, Texas

FEDERAL ADVISORY COUNCIL MEMBER

- JAMES W. ASTON, President, Republic National Bank of Dallas, Dallas, Texas

business review



january 1964

FEDERAL RESERVE
BANK OF DALLAS

Annual Report Issue

contents

***1963 — another year
of economic growth***

economic situation 3

financial developments 6

district developments 11

1963—another year of economic growth

Economic activity during 1963 continued to advance, and most broad measures of economic performance reached new highs. The end of 1963 marked almost 3 years of expansion during the current business cycle — a span considerably longer than the average duration of the expansion phases of the other three peacetime business cycles since World War II. The strength in the economy during 1963 was broadly based, with output gains throughout a wide range of goods and services.

Gross national product, averaging about \$584 billion, rose approximately \$29 billion (or 5 percent) during 1963, compared with nearly \$37 billion (or 7 percent) during 1962. All major sectors contributed to the advance in the output of final goods and services last year. Expenditures for personal consumption provided almost 60 percent of the approximately \$29 billion gain, and government purchases accounted for nearly 29 percent, with expenditures of the Federal Government and those of state and local governmental units sharing about equally in the dollar advance. Gross private domestic investment and net exports rose moderately.

economic situation

Businessmen's expectations at the beginning of 1963 generally were quite restrained and cautious as compared to the rather ebullient mood that prevailed with respect to prospects for 1962. As it turned out, the economy reached a level in 1963 which was within the top ranges of the more optimistic early-season forecasts. The broadly based advance that has characterized the current upward movement may be more favorable for sustaining economic

growth than a sharply buoyant expansion, which could cause imbalances and excesses.

Every year has its quota of both the expected and the unexpected, and 1963 was no exception. Early in 1963, a prolonged newspaper strike in the East and the curtailment of shipping at eastern and gulf ports affected business activity. As was the case in 1962, economic developments last year also were influenced by the actions of businessmen as they sought to minimize the effects of a possible steel industry work stoppage.

Although the unsettling effects of such 1962 incidents as the steel price rollback, the sharp drop in stock prices, the Canadian dollar problem, and the Cuban crisis were not repeated last year, the possibility of major tax reductions and reforms introduced some speculative elements into the 1963 business and financial scene. The assassination of President Kennedy might have been expected to be extremely disturbing in its economic consequences; but the speed and firmness with which the Executive functions were assumed by the new President demonstrated the continuity of Government, and the likelihood of a sudden deterioration in confidence was circumvented. In 1963, as in the past few years, national policy continued to reflect concern about measures which would promote sound economic growth, encourage fuller utilization of human and material resources, and improve the international position of the United States.

The tempo of economic activity was not uniformly strong throughout 1963. Each quarterly estimate of gross national product moved successively higher throughout the year. However,

these broad quarterly movements in GNP tended to mask the changes that occurred in some of the key activity measures. Many of the specific economic barometers — such as industrial production, inventory accumulation, employment, manufacturers' new orders and shipments, and new plant and equipment expenditures — posted their most rapid rates of gain prior to August and, subsequently, held close to their high mid-1963 levels or rose only slightly.

Industrial production, which had fluctuated narrowly around a high-level plateau for about 7 months, began to move up in early 1963 and advanced about 1 index point a month to reach 127 percent of the 1957-59 base in July. Subsequently, industrial output dipped fractionally but recovered to move slightly above the high July level by the end of the year.

Although a step-up in steel output in response to strike-hedge purchases contributed importantly to the rise in industrial production during the first half of 1963, the advance in total output occurred in a wide range of industries. The favorable consumer reception of 1963-model automobiles and the strong market for a wide variety of other consumer goods, the upturn in business investment, and the exceptional strength in construction activity all combined to broaden and accelerate industrial output during the first part of 1963.

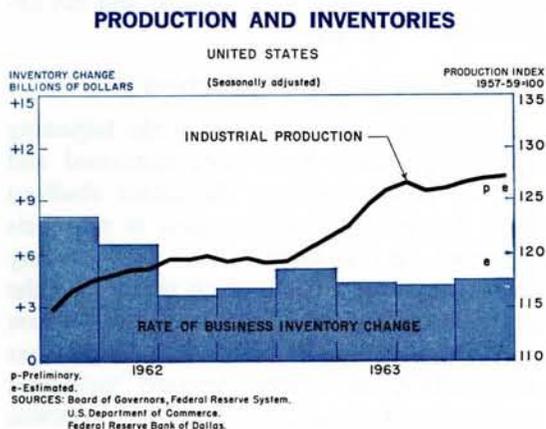
When steel production began its extended decline in June — after the fear of a possible strike had passed — industrial production continued to be buoyed upward by the steadily rising output of business and consumer durables. The slight August easing in industrial output primarily reflected a decline in automobile assemblies, associated with the 1964-model changeover, and the continuing weakness in steel.

Although total industrial output last year averaged about 5 percent above that in 1962,

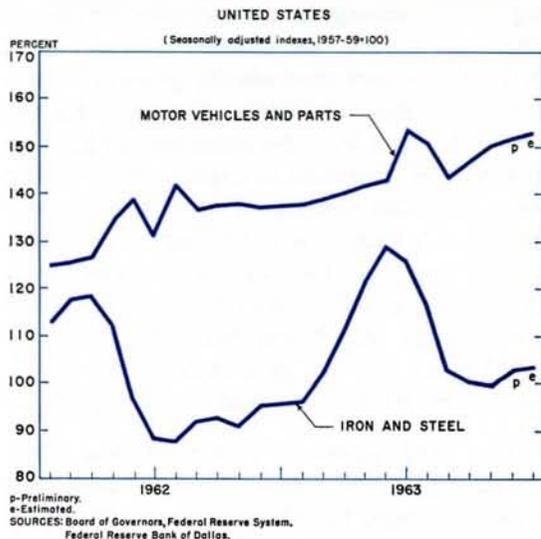
the steel and automobile industries remained the center of attention much of the time and performed even better. Steel production of about 109 million tons was well above the 98 million tons melted in 1962 and the highest total since 1957. Domestic automobile output reached 7.6 million units, or one-tenth above 1962 and second only to the 7.9 million units produced in 1955.

Despite the increasing tempo of economic activity, inventory accumulation during 1963 was relatively modest and averaged around \$4.5 billion, compared with \$5.5 billion in 1962. Other than some step-up in hedge buying of steel during the first quarter of 1963 and a modest rise in manufacturers' and distributors' stocks in the final quarter, inventory additions were fairly closely geared to the upward advance in total business sales, and inventory-sales ratios generally averaged below those in 1962. The close supervision of inventories that prevailed last year probably reflected the ability of businesses to fill their orders with little delay, the absence of concern over general or excessive price increases, and the desire to hold down business expenses — one of which is the cost of carrying inventories.

A significant stimulant to industrial production, employment, and income was provided by the rising level of new construction outlays and



OUTPUT OF SELECTED KEY INDUSTRIES



an increased rate of spending for plant and equipment. After trending downward in the final quarter of 1962 and the first quarter of 1963, both construction spending and outlays for plant and equipment began to rise. Total construction expenditures rose vigorously from their low early-spring levels and, by October, reached a seasonally adjusted annual rate of \$65.8 billion. Spending for new construction lost some of its rapid upward momentum after October because of a decline in public construction but, for the year, averaged about 6 percent above 1962.

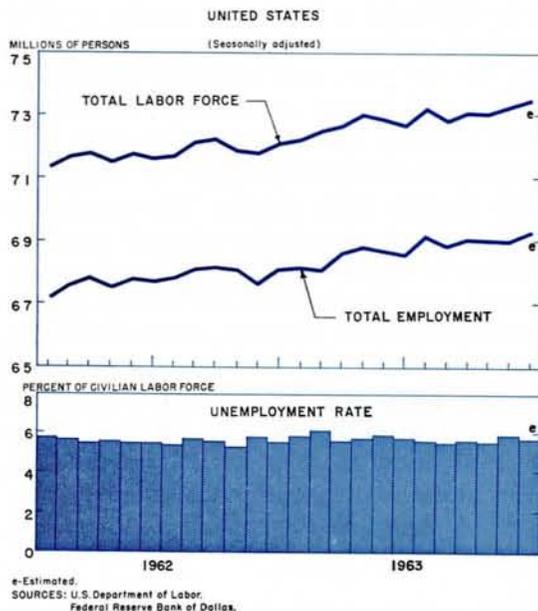
All major construction categories — private residential and nonresidential building, as well as public construction — rose over the 1962 levels, but residential construction showed an especially strong performance. Private housing starts rose erratically during 1963, reaching a peak in October, but averaged 1.6 million units for the year to top the 1962 level by 6 percent. Multiple units continued to account for an increasing proportion of total starts last year, and there was a further shift away from housing financed under governmental programs.

The rise in plant and equipment expenditures that began in the second quarter of 1963 provided continuous support to the economy; and for the year, such spending totaled \$39 billion, or 5 percent above 1962. The investment increases during 1963, while fairly well distributed among most types of businesses, were smaller each quarter. The uptrend in capital spending probably reflected some reduction in excess capacity, resulting from improved operating levels as the current cyclical upturn progressed. However, rising profits, the new depreciation guidelines, and the tax credit for new investment have provided additional incentives to build new cost-cutting facilities. In 1963, as in the past several years, equipment modernization, rather than the construction of new plants, continued to receive emphasis.

The overall employment situation improved in 1963, but the improvement was considerably less than desired. Total employment, seasonally adjusted, moved to a new peak of just under 69.2 million in July but, subsequently, showed little further growth. Total nonagricultural wage and salary employment advanced rather consistently during 1963 to a level of about 57.7 million, or around 1.5 million higher than a year ago. The gains in such employment centered in the nonmanufacturing sector as manufacturing employment, at 17.1 million, remained about unchanged after June.

Total employment grew about 1.3 million persons between November 1962 and the same month in 1963, and the civilian labor force rose 1.5 million. Consequently, the unemployment rate, at 5.9 percent of the civilian labor force, was little different from a year earlier. Although there was little change in the overall unemployment rate, changes occurred in the composition of the unemployed. During 1963, the unemployment rates of experienced wage and salary workers and of married male workers continued to trend downward. Thus,

CIVILIAN EMPLOYMENT TRENDS



unemployment remained most persistent among women workers and those groups lacking experience.

Personal income has risen every year since 1949, and last year was no exception. The 1963 gain in income was about 5 percent and compares with an increase of just under 6 percent in 1962. The growth in personal income in 1963 reflected the gain in overall employment, the increase in the number of hours worked, negotiated wage boosts, and higher incomes from property, interest, and dividends. In addition, a significant lift was given to personal income as a result of the increase in pay rates of Armed Forces personnel and the hike in Federal minimum wage levels to \$1.25 per hour.

The broadly diffused advance in personal income provided the consumer with an expanded base for increased personal expenditures. Total consumer buying in 1963 rose about in line with the 5-percent increase in income. Durable goods sales performed well throughout most of

1963, although there was some temporary easing in sales during the late summer because of shortages of new automobiles. During 1963, purchases of new domestically produced automobiles totaled 7.3 million units, or 8 percent above the 1962 level. Spending on nondurables and services continued to expand about in line with long-time trends. The consumer was neither a reluctant nor an eager buyer but, rather, was a careful and selective purchaser. He had no hesitation about borrowing in order to make his purchases, particularly of big-ticket items, and the gain in consumer installment debt exceeded \$6 billion during 1963.

The 1963 economic expansion was characterized by fairly stable prices. Although they generally strengthened throughout the year, consumer prices were only about 1 percent above the 1962 level. Wholesale prices showed little overall change, although some evidence of selective price increases began to emerge during the latter part of 1963.

As the economy moved into 1964, business sentiment was generally optimistic. Last year was a profitable one for most businesses, and higher profits tend to make businessmen somewhat more optimistic. Further, the momentum of the economy during the final months of 1963 has apparently carried over into 1964. Whether this momentum will be maintained or accelerated has yet to be determined. New records will have to be set in many areas of activity if the overall economic gain achieved in 1963 is to be surpassed. Consumers and businessmen seem to be confident, although part of this confidence may reflect anticipation of a tax cut.

financial developments

The strength in the domestic economy was fully reflected in financial developments during 1963. Consumers, businesses, and governments — Federal, state, and local — borrowed heavily to finance a record volume of consump-

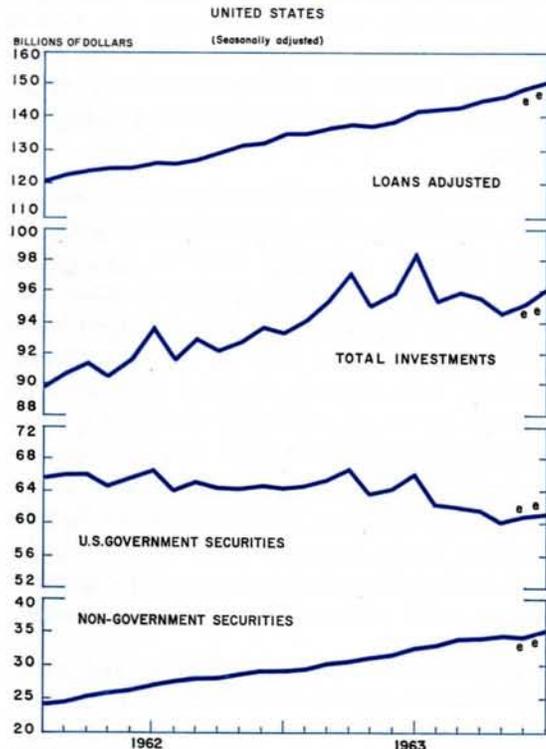
tion and investment expenditures. In some sectors of the economy, credit demands reached record levels. Interest rates rose in most markets, but increases were more pronounced in the short-term area.

The supply of loanable funds rose steadily during the year. Funds flowed into commercial bank time and savings deposit accounts at a near-record pace, and there were large cash inflows at nonbank financial institutions as well. Reserve availability at member banks declined, however, and borrowing from Federal Reserve banks expanded as monetary policy shifted in the direction of less ease.

At the end of the year, total loans of all commercial banks in the United States approached a level of \$151 billion, which is \$16 billion — or approximately 12 percent — above the 1962 level. About one-half of the dollar advance occurred in real estate and consumer-type borrowing. Partially reflecting the high level of construction activity, especially in the residential area, loans to finance real estate transactions rose approximately \$5 billion, or one-fourth more than in the previous year. The consumer continued to borrow in order to finance purchases of durable and other consumer-type goods, and the rise in consumer loans exceeded that recorded for last year. Commercial and industrial loans advanced approximately \$4 billion during the year, principally because of the expanding credit requirements of trade concerns and nondurable goods manufacturers.

Although security loans at the commercial banks declined slightly from the high level of December 1962, the monthly average of loans collateralized by securities in 1963 was considerably above that of the prior year. The volume of security financing was significantly affected by Treasury refunding operations and cash borrowing. The large advance refundings conducted in February and September were reflected in notable increases in bank loans to

COMMERCIAL BANK LOANS AND INVESTMENTS



*-Estimated.
SOURCES: Board of Governors, Federal Reserve System,
Federal Reserve Bank of Dallas.

security dealers. Also, banks' security loans were bolstered by a high level of borrowing against stock exchange collateral.

Total investments at the Nation's commercial banks increased only slightly during 1963 and reached a level of approximately \$96 billion. Faced by a need for profitable employment of a substantial inflow of time and savings deposits, banks were heavy purchasers of municipal bonds. Holdings of non-Government securities, primarily state and local government obligations, advanced about \$6 billion during the year.

Commercial banks reduced their holdings of Government securities during 1963, with a notable decline occurring in Treasury bills. After midyear, portfolios of coupon issues also

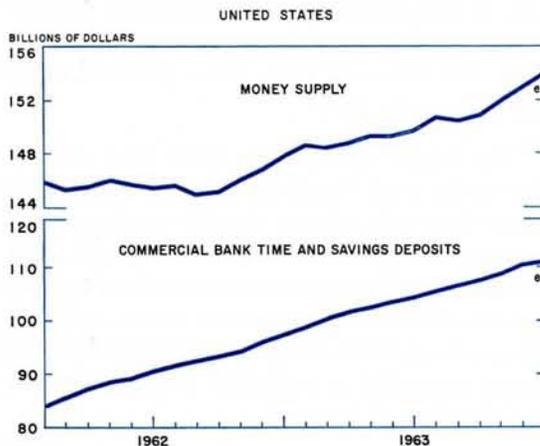
declined. The need to meet expanding credit demands of businesses and the desire to offset rising interest costs were among the factors inducing smaller holdings of short-term Government securities. Average maturities of investment portfolios were lengthened during the year.

Reserve positions of member banks became less easy during 1963, especially after midyear. Free reserves, declining from an average of \$318 million in the first quarter to \$234 million in the April-June period, averaged \$276 million for the first half of the year. Subsequently, free reserves declined further to an average of \$129 million in the third quarter and about \$100 million in the final quarter and, as a result, averaged \$115 million in the last half of the year. Borrowings from Federal Reserve banks averaged \$165 million in the first half of the year but increased to approximately \$325 million during the last 6 months.

Individual holdings of liquid financial assets continued to expand in 1963, partially reflecting a high level of personal savings. Savings and loan shares at all operating savings and loan associations advanced about \$11 billion in 1963, or approximately 13 percent, which matches the rise recorded for the previous year. Time deposits at mutual savings banks increased almost \$3.6 billion, a rise slightly exceeding that registered in 1962.

The money supply (demand deposits adjusted plus currency in the hands of the public) rose sharply during 1963 and, at the end of the year, was \$6 billion, or approximately 4 percent, above the level at the beginning of the year. This increase was appreciably above the 1.5-percent gain shown in 1962. The expansion was especially rapid during the second half of 1963; during the July-December period, the money supply advanced 5.5 percent on an annual-rate basis, compared with about 2.6 percent in the first half. Time and savings deposits adjusted, which had expanded signifi-

MONEY SUPPLY AND TIME DEPOSITS



e-Estimated.
SOURCES: Board of Governors, Federal Reserve System.
Federal Reserve Bank of Dallas.

cantly in the prior 2 years, continued their upward trend in 1963 and totaled about \$112 billion at the end of the year. This level represents an increase of approximately 16 percent during the year, or slightly less than the rate of gain in 1962.

The demand for mortgage funds expanded appreciably during the year, primarily in response to increased private construction activity. Adequate funds were available, however, and most lenders actively sought investment outlets. Less stringent credit terms, reduced fees, and more lenient contract terms were features of the mortgage market in 1963. Foreclosures increased during the year but remained a relatively small percentage of total mortgage debt outstanding. Total mortgage debt outstanding at the end of the year approached \$280 billion, or about \$30 billion above the amount outstanding at the beginning of the year.

State and local government borrowings approximated a record \$10.0 billion in 1963, a total \$1.4 billion above the advanced 1962 level. As in past years, this debt financing primarily reflected increased outlays for education and public improvements, as well as insufficient tax revenues. Commercial banks were heavy

purchasers of municipal bonds, absorbing about 85 percent of new issues, and, to an increasing extent, were active purchasers of medium-grade bonds.

The Federal Government, in financing its cash deficit, was a significant factor in the capital market during 1963. The advance refunding technique (first employed in mid-1960) was used effectively to reduce the burden of future financing operations and to achieve lengthened maturity of the public debt. Two advance refunding operations were conducted during the year — one in February, involving \$29.1 billion in securities, and one in September, involving \$32.1 billion. Primarily as a result of these operations, the average maturity of the marketable public debt was increased, by 2 months, to 5 years 1 month.

The Treasury raised about \$7 billion in new money through sales of marketable securities (excluding weekly Treasury bills). Approximately \$2.5 billion was obtained by selling issues having original maturities of 5 years or longer, \$550 million of which involved the sale of two issues of long-term bonds at competitive auction — a technique employed by the Treasury for the first time in January 1963.

Substantial amounts of funds were raised in the short-term maturity area through sales of Treasury bills. Approximately \$5.5 billion was obtained through sales of Tax Anticipation bills and the auction of a "strip" of bills. An additional \$800 million was obtained by increasing the amounts in weekly bill auctions (excluding the \$1 billion "strip" of bills). The heavy concentration of financing in short-term maturities primarily reflected the Treasury's desire to keep U. S. interest rate levels competitive with those prevailing abroad. A large proportion of new short-term issues was placed outside the banking system.

Corporate financing in the capital market in 1963 was not particularly large. New security

offerings for cash (gross proceeds) totaled about \$10.3 billion, little changed from the 1962 level and significantly below the \$13.1 billion recorded for 1961. Private placement of corporate debt increased slightly from the 1962 level, but this gain was approximately offset by declines in public offerings of stocks and bonds. The reduction in corporate reliance on external sources of funds resulted primarily from substantial cash inflows stemming from the new investment tax credit and the Treasury's revised depreciation guidelines, as well as from the expansion in corporate earnings.

Interest rates rose in most sectors of the money and capital markets during 1963, but increases were more pronounced in the second half of the year. Money market rates advanced moderately in the first half of the year as prospects improved for the continued advance in the economy and as monetary policy became somewhat less easy around the turn of the year. Early in the third quarter, yields rose sharply on most money market instruments, as preliminary estimates indicated that the balance-of-payments deficit had deepened significantly in the second quarter. The deterioration in the Nation's international accounts, plus the fact that money market data began to show some lessening of reserve availability, led some market participants to feel that higher short-term interest rates were in the offing. By mid-July, yields on 91-day Treasury bills had risen about 20 basis points above the discount rate.

On July 17, most Federal Reserve banks raised their discount rates one-half of 1 percent to 3½ percent. Inasmuch as this action had been widely anticipated, market yields were not immediately affected. Seasonal credit demands, reinforced by increased borrowing associated with the expansion in economic activity, contributed to further advances in short-term yields in the fourth quarter; and

at year's end, yields on 91-day Treasury bills were about 60 basis points above the level at the end of 1962.

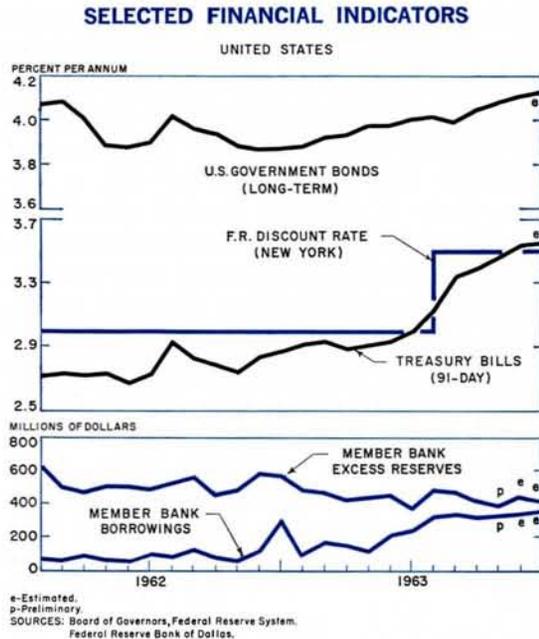
Rates on intermediate- and long-term Government obligations and high-grade municipal and corporate bonds advanced during 1963, but increases were considerably less than those in the short-term area. In search of profitable outlets for their funds, investors turned increasingly to medium-grade bonds, and yields on Baa-rated corporate obligations declined about 10 basis points while yields on comparably rated municipal bonds were little changed. Rates on conventional and FHA mortgages declined about 10 basis points.

the persisting balance-of-payments problem. In response to a significant deterioration in the Nation's balance-of-payments position in the second quarter, monetary policy became less easy, as evidenced by the increase in the discount rate to 3½ percent in mid-July. System open market policy also moved in the direction of slightly less ease.

The Board of Governors amended several of its regulations during 1963 in response to changing economic and financial conditions. Concurrent with increases in the discount rates of the Reserve banks, the Board amended regulation Q, effective July 17, 1963, to allow member banks to pay a maximum rate of 4 percent on time deposits and on certificates of deposit with maturities of 90 days or longer. This action was aimed at permitting banks to continue to compete effectively in attracting or retaining foreign and domestic funds. In recognition of the significant rise in the volume of stock market credit since mid-1962, the Board, effective November 6, raised margin requirements to 70 percent from 50 percent.

The Nation's economic relations with the rest of the world gained in importance during 1963, as the balance-of-payments deficit deepened following two consecutive years in which improvements were recorded. For the year, the deficit in the balance of payments approximated \$3.0 billion, compared with \$2.2 billion in 1962 and \$2.4 billion in 1961. These results include special factors, such as advance repayments by foreigners of U. S. Government loans.

The deterioration in the U. S. balance of payments was especially severe in the first half of the year. On a seasonally adjusted annual-rate basis, the balance of payments was in deficit \$3.4 billion in the first quarter and \$5.0 billion in the second quarter; as a result, the deficit for the first 6 months of the year averaged about \$4.0 billion. Large increases in foreign long-term borrowing in the American capital market and the outflow



Federal Reserve operations during 1963 were conducted with a view to encouraging further domestic economic growth and, at the same time, maintaining conditions in money and credit markets which would discourage the outflow of funds internationally. Favorable domestic economic developments provided the System with added flexibility in dealing with

of short-term funds in response to higher rates available on foreign investments were primarily responsible for the uncomfortably large deficits during the first half of the year.

In recognition of the necessity of reducing and, in time, eliminating the persistently adverse U. S. balance-of-payments situation and of maintaining the strength of the international position of the dollar, public policy measures were introduced to reduce the outflow of funds. In mid-July the Federal Reserve System raised the discount rate to 3½ percent and amended regulation Q to permit banks to pay a maximum 4 percent on time and savings deposits held for 90 days or longer.

Also in July, the Administration proposed to Congress an "interest equalization tax" which would impose a tax of up to 15 percent on Americans' purchases of foreign securities from foreigners. The proposal, which applies to both debt and equity securities, would add about 1 percent to foreigners' borrowing costs in the American capital market. In order to detect possible shifts of foreign borrowers to the use of bank credit, the proposal provides the Treasury with authority to obtain from banks timely detailed reports on the nature of their foreign lending activities.

The shift in monetary policy toward less ease contributed to a significant improvement in the balance of payments in the third quarter. As domestic short-term interest rates rose in response to monetary policy actions and increased credit demands, the differential between yields on American short-term investments and comparable foreign securities declined. By the end of the third quarter, it was evident that there had been some reduction in the outflow of bank credit and some net reflow of short-term money market investments abroad. Although the interest equalization tax was not adopted during the year, the possibility of its enactment (the terms of the proposal make it retroactive to July 18, 1963) was a

major deterrent to foreign borrowing during the second half of 1963.

The U. S. gold stock (excluding holdings of the Stabilization Fund) declined approximately \$465 million during the year, compared with a loss of \$911 million in 1962. Less than 15 percent of the 1963 balance-of-payments deficit was financed by an outflow of gold; the remainder was accounted for by a buildup of foreign-held short-term dollar claims on the United States, by advance debt repayments on U. S. Government loans, and by sales of non-marketable U. S. Treasury securities to foreign central banks, largely denominated in foreign currencies. In contrast, approximately 40 percent of the 1962 balance-of-payments deficit was settled in gold. The sale of U. S. Treasury bonds and certificates of indebtedness, denominated in foreign currencies, to foreign central banks and treasuries — a program initiated in 1961 — was a significant factor in minimizing the outflow of gold in 1963.

Having made a significant contribution during the previous 2 years toward the smooth and efficient functioning of the international payments mechanism, cooperative arrangements among Western European central banks and the Federal Reserve System were continued during 1963. Foreign currency swap arrangements with 10 foreign central banks and the Bank for International Settlements were renewed during the year, and 2 countries were added to the list of those participating in the reciprocal agreements. At the end of 1963, the System's currency swap facilities with these 12 foreign institutions totaled \$2,050 million, most of which was on a standby basis.

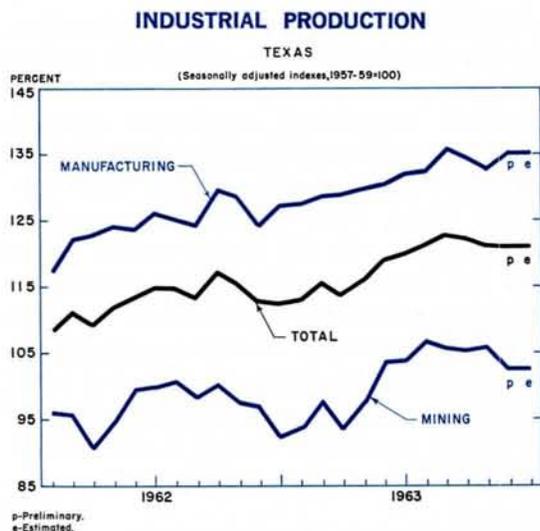
district developments

The southwestern economy also experienced growth during 1963. The major raw materials-producing and -fabricating sectors—manufacturing, mining, and agriculture—either stepped up or maintained their output; and employ-

ment, income, construction activity, and trade all moved to higher levels.

Total industrial output in the Southwest, as evidenced by data for Texas, rose 5 percent during 1963 to a new high. The increase in output was quite broad, as all major types of industrial activity showed gains. Output rose rather steadily from month to month until about August, when the trend eased and flattened, mainly as a result of the tapering in mining production.

Manufacturing output advanced about 6 percent, with durable goods production providing the greatest strength. Construction materials, primary metals, and transportation equipment were among the durable goods showing the most significant output gains. Among nondurables, the largest production increases were registered by apparel, leather products, and chemicals. Mining output rose 4 percent during 1963, compared with 1 percent in 1962.



Since the District provides about 40 percent of the Nation's domestically produced crude oil and 30 percent of refined products, the pace of District petroleum activity is particularly responsive to changes in the Nation's

demand for liquid hydrocarbons, a demand that expanded almost 4 percent in 1963. A number of factors contributed to the larger consumption of oil and oil products. Commercial jet aircraft burned more kerosene — over 6 percent more than in 1962. Gasoline usage was stimulated by near-record sales of cars and trucks. Distillate fuel oil was consumed at peak rates in January and February to heat homes and factories, and distillate sales were above year-earlier levels during the spring and summer because of heavier diesel-powered rail and truck traffic.

Crude oil production in the District increased about 3.7 percent during 1963, with northern Louisiana, southeastern New Mexico, and Texas all sharing in the advance. Production in Louisiana rose to a new high, and Texas experienced the largest increase in crude oil output since 1959. Crude oil runs to District refinery stills gained 4.7 percent. Despite the larger outturn of oil and oil products, District drilling activity declined last year, continuing the generally downward trend evident since 1956 (a peak year for drilling). All the decrease occurred in Texas and southeastern New Mexico, however, as the drilling pace picked up significantly in northern Louisiana.

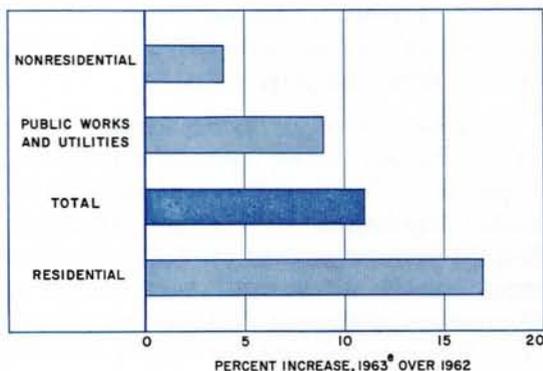
Despite severe drought conditions in some areas, overall agricultural production in the Southwest last year was slightly above that in 1962. High crop yields offset reductions in harvested acreage, and total crop production expanded somewhat. In addition, output of livestock and livestock products was slightly larger, principally because of increased cattle and calf production.

Prices received by southwestern farmers and ranchers for all farm products in 1963 averaged about the same as in the previous year; prices for crops were somewhat stronger, but those for livestock and livestock products, particularly cattle, moved lower. Although total gross income of southwestern farmers and ranchers

was a bit larger than a year earlier, production expenses were higher last year, and net farm income was little changed from the \$1.6 billion received in 1962.

VALUE OF CONSTRUCTION CONTRACTS

FIVE SOUTHWESTERN STATES



*-Partially estimated.
SOURCES: F.W. Dodge Corporation,
Federal Reserve Bank of Dallas.

Construction activity was particularly strong during 1963, and the total value of construction contracts in Arizona, Louisiana, New Mexico, Oklahoma, and Texas advanced about 11 percent to reach a record of approximately \$4.9 billion for the year. All categories of construction (residential, nonresidential, and public works and utilities) increased last year, with residential building posting the most impressive gain — nearly 17 percent. The continuing strong emphasis upon the building of apartment-type housing was the most significant factor in the rise in residential construction activity.

Nonresidential construction rose only moderately in the southwestern states in 1963. The slight gain reflected a tapering off in the rapid rate of construction of new shopping centers, offices, warehousing facilities, and other commercial structures. Highway building, expansion of municipal services, and creation of new educational facilities continued to boost contracts for public works and utilities construction; however, the 9-percent increase in the

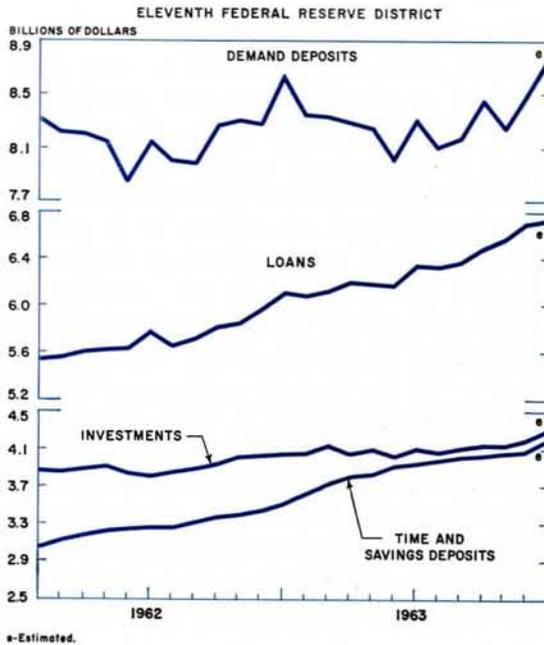
value of such contracts during 1963 was not as large as that in 1962.

The broadly based upward movement in industrial production, construction, and other areas of southwestern economic activity last year was reflected in the employment situation. Total nonagricultural employment increased virtually every month in 1963 to reach a record average of almost 4.8 million, or 2 percent above the 1962 average. Each of the southwestern states shared in the employment growth. The percentage gain in manufacturing employment in the Southwest was about as large as the rise in total employment. Mining employment, continuing a trend in evidence for several years, declined further in 1963 and was the only major type of employment that dipped below its year-earlier average. In response to the strength in construction last year, construction employment posted a 5-percent gain — a larger rise than any other category.

The unemployment rate in the Southwest during 1963 showed little improvement. The number of unemployed workers in Texas averaged 4.8 percent of the State's civilian labor force last year, or essentially unchanged from the preceding year. At the end of 1963 — as a year earlier — only one major labor market area in the Southwest had a substantial labor surplus.

Consumer buying in the Southwest in 1963 mirrored the advance in economic activity in the area. The strong showing by durable goods sales, especially automobiles, held the center of attention; and registrations of new passenger automobiles in Dallas, Fort Worth, Houston, and San Antonio were about one-tenth above the previous record set for these cities in 1962. Sales of other durables and of nondurables showed a less vigorous rise in 1963 and were only moderately above the levels in the preceding year. Department store sales in the Eleventh District last year were around 3 percent above those in 1962.

MEMBER BANK DEPOSITS, LOANS, AND INVESTMENTS



Banking developments in the District during 1963 reflected the continued growth of the southwestern economy. Loan demand expanded, and substantial inflows of time and savings deposits augmented the supply of loanable funds at District banks. Total investments advanced slightly, as increased holdings of non-Government securities exceeded smaller holdings of Treasury issues.

Paced by gains in real estate, consumer-type, and commercial and industrial loans, total loans at all member banks in the District advanced about 12 percent during 1963, or slightly more than in 1962. Loan demand was especially strong at country banks; although holding less than one-half of loans outstanding, these institutions accounted for about 75 percent of the total loan advance in 1963.

Loans for financing real estate transactions advanced significantly in the District during the year; and consumer-type loans moved strongly upward, although the rate of advance

slackened during the summer months. Commercial and industrial loans were slightly weaker in the first half of the year than in the comparable 1962 period, but business borrowing from commercial banks accelerated considerably after midyear. At the end of the year, commercial and industrial loans were about 11 percent above a year ago. Loans for purchasing and carrying securities edged slightly upward during the year.

Total investments at District member banks advanced approximately 3 percent during 1963, as purchases of non-Government securities exceeded liquidations of Treasury obligations. Non-Government security portfolios expanded approximately 20 percent, but holdings of Government obligations declined about 3 percent. Reserve city banks accounted for over one-half of the increase in holdings of municipal obligations, although these banks own only about one-third of total state and local obligations held by District banks. Both country and reserve city banks liquidated modest amounts of Government securities. Treasury bills, certificates, and notes and bonds maturing within 1 year were liquidated in substantial amounts; and holdings of long-term Government bonds were reduced moderately. Banks added to their portfolios of intermediate-term Government securities.

Total deposits advanced about 8 percent at member banks in the District during 1963, reflecting increases of 20 percent in time and savings deposits and 3 percent in gross demand deposits. The expansion in deposits was fairly evenly distributed between reserve city banks and country banks.

Reserve availability at member banks in the District was reduced slightly during 1963. Borrowings from the Federal Reserve Bank of Dallas advanced but, on the average, remained relatively small. District member banks were active participants in the Federal funds market and, on balance, were net purchasers of funds.

***new
member
banks***

The Security National Bank of Lubbock, Lubbock, Texas, a newly organized institution located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, opened for business December 2, 1963, as a member of the Federal Reserve System. The new member bank has capital of \$250,000, surplus of \$150,000, and undivided profits of \$100,000. The officers are: R. A. Lipscomb, Chairman of the Board; Tilden A. Jones, President; J. E. Maisen, Vice President; H. E. Morris, Vice President; and Gary D. Edmiston, Cashier.

The Memorial National Bank of Houston, Houston, Texas, a newly organized institution located in the territory served by the Houston Branch of the Federal Reserve Bank of Dallas, opened for business January 6, 1964, as a member of the Federal Reserve System. The new member bank has capital of \$200,000, surplus of \$200,000, and undivided profits of \$100,000. The officers are: Robert W. Carey, Chairman of the Board; W. C. Noble, Jr., Vice Chairman of the Board; Henry Franks, Jr., President; W. Haskell Cantrell, Jr., Executive Vice President; and Charles T. Meeks, Vice President and Cashier.

The Randolph Field National Bank, Universal City, Texas, a newly organized institution located in the territory served by the San Antonio Branch of the Federal Reserve Bank of Dallas, opened for business January 6, 1964, as a member of the Federal Reserve System. The new member bank has capital of \$200,000, surplus of \$125,000, and undivided profits of \$75,000. The officers are: Louis F. Sirianni, Chairman of the Board; Col. James F. Stroker, President; Maj. Gen. John H. Foster, Vice President; Alvin W. Cowles, Vice President and Cashier; Taylor M. Garner, Assistant Cashier; and Floyd E. Stahl, Assistant Cashier.

